

KIRKLAND'S, INC
Form 10-Q
November 30, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended October 28, 2017

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: 000-49885

KIRKLAND'S, INC.
(Exact name of registrant as specified in its charter)

Tennessee 62-1287151
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

5310 Maryland Way
Brentwood, Tennessee 37027
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (615) 872-4800

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth 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.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value - 15,994,457 shares outstanding as of November 15, 2017.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KIRKLAND'S, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share data)

	October 28, 2017	January 28, 2017	October 29, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	\$27,885	\$63,937	\$28,260
Inventories, net	107,322	75,447	99,989
Prepaid expenses and other current assets	23,063	13,656	19,503
Total current assets	158,270	153,040	147,752
Property and equipment:			
Equipment	20,618	19,525	19,321
Furniture and fixtures	79,481	78,492	77,390
Leasehold improvements	116,251	109,494	107,640
Computer software and hardware	57,683	52,740	51,158
Projects in progress	9,046	5,520	6,932
Property and equipment, gross	283,079	265,771	262,441
Accumulated depreciation	(167,952)	(154,901)	(148,508)
Property and equipment, net	115,127	110,870	113,933
Deferred income taxes	968	1,198	—
Other assets	6,552	5,038	3,135
Total assets	\$280,917	\$270,146	\$264,820
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$44,030	\$32,890	\$44,062
Accounts payable to related party vendor	7,671	5,008	8,614
Income taxes payable	—	6,273	—
Accrued expenses	34,699	30,270	29,711
Total current liabilities	86,400	74,441	82,387
Deferred rent	54,196	52,656	53,846
Deferred income taxes	2,561	479	1,689
Other liabilities	9,916	8,757	8,347
Total liabilities	153,073	136,333	146,269
Shareholders' equity:			
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding at October 28, 2017, January 28, 2017, or October 29, 2016, respectively	—	—	—
Common stock, no par value; 100,000,000 shares authorized; 16,002,387; 15,906,635; and 15,899,840 shares issued and outstanding at October 28, 2017, January 28, 2017, and October 29, 2016, respectively	167,063	165,245	164,526

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Accumulated deficit	(39,219)	(31,432)	(45,975)
Total shareholders' equity	127,844	133,813	118,551
Total liabilities and shareholders' equity	\$280,917	\$270,146	\$264,820

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

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KIRKLAND'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	13-Week Period Ended		39-Week Period Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales	\$ 144,979	\$ 138,240	\$ 409,503	\$ 391,168
Cost of sales	82,773	78,637	234,068	224,127
Cost of sales related to merchandise purchased from related party vendor	11,668	9,125	32,278	24,753
Cost of sales (exclusive of depreciation as shown below)	94,441	87,762	266,346	248,880
Gross profit	50,538	50,478	143,157	142,288
Operating expenses:				
Compensation and benefits	28,072	27,050	80,556	77,507
Other operating expenses	19,427	18,601	54,501	52,057
Depreciation	6,806	6,435	19,841	18,703
Total operating expenses	54,305	52,086	154,898	148,267
Operating loss	(3,767)	(1,608)	(11,741)	(5,979)
Interest expense	69	67	195	206
Other income	(229)	(61)	(448)	(172)
Loss before income taxes	(3,607)	(1,614)	(11,488)	(6,013)
Income tax benefit	(1,245)	(768)	(3,919)	(2,516)
Net loss	\$(2,362)	\$(846)	\$(7,569)	\$(3,497)
Loss per share:				
Basic	\$(0.15)	\$(0.05)	\$(0.48)	\$(0.22)
Diluted	\$(0.15)	\$(0.05)	\$(0.48)	\$(0.22)
Weighted average shares outstanding:				
Basic	16,013	15,897	15,932	15,844
Diluted	16,013	15,897	15,932	15,844

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

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KIRKLAND'S, INC.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share data)

	Common Stock		Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount		
Balance at January 28, 2017	15,906,635	\$ 165,245	\$ (31,432)	\$ 133,813
Issuance of common stock under employee stock purchase plan	28,179	253	—	253
Exercise of stock options	28,346	—	—	—
Restricted stock issued	101,979	—	—	—
Net share settlement of stock options and restricted stock units	(43,851)	(201)	—	(201)
Repurchase and retirement of common stock	(18,901)	—	(218)	(218)
Stock-based compensation expense	—	1,766	—	1,766
Net loss	—	—	(7,569)	(7,569)
Balance at October 28, 2017	16,002,387	\$ 167,063	\$ (39,219)	\$ 127,844

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

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KIRKLAND'S, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
 (in thousands)

	39-Week Period Ended October 28, 2017		October 29, 2016
Cash flows from operating activities:			
Net loss	\$(7,569)		\$(3,497)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation of property and equipment	19,841		18,703
Amortization of deferred rent	(5,784)		(3,856)
Amortization of debt issue costs	40		70
Loss on disposal of property and equipment	157		295
Stock-based compensation expense	1,766		2,521
Deferred income taxes	2,312		205
Changes in assets and liabilities:			
Inventories, net	(31,875)		(31,767)
Prepaid expenses and other current assets	(2,071)		708
Other noncurrent assets	(1,554)		(1,000)
Accounts payable	10,502		18,307
Accounts payable to related party vendor	2,663		6,356
Income taxes refundable	(13,609)		(9,915)
Accrued expenses and other current and noncurrent liabilities	12,912		15,093
Net cash (used in) provided by operating activities	(12,269)		12,223
Cash flows from investing activities:			
Proceeds from sale of property and equipment	—		4
Capital expenditures	(23,617)		(28,069)
Net cash used in investing activities	(23,617)		(28,065)
Cash flows from financing activities:			
Refinancing costs	—		(271)
Cash used in net share settlement of stock options and restricted stock	(201)		(263)
Employee stock purchases	253		284
Repurchase and retirement of common stock	(218)		—
Net cash used in financing activities	(166)		(250)
Cash and cash equivalents:			
Net decrease	(36,052)		(16,092)
Beginning of the period	63,937		44,352
End of the period	\$27,885		\$28,260
Supplemental schedule of non-cash activities:			