

REFINITIV

DELTA REPORT

10-Q

KIRK - KIRKLANDS, INC

10-Q - MAY 04, 2024 COMPARED TO 10-Q - OCTOBER 28, 2023

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TOTAL DELTAS 654

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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, May 4, 2023 2024**

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

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Kirkland's, Inc.

(Exact name of registrant as specified in its charter)

Tennessee

(State or other jurisdiction of
incorporation or organization)

62-1287151

(IRS Employer Identification No.)

5310 Maryland Way

Brentwood, Tennessee

(Address of principal executive offices)

37027

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	KIRK	NASDAQ Global Select Market

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 every Interactive Data File required to be submitted 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 such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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 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.

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 – 12,923,677 13,038,978 shares outstanding as of November 25, 2023 May 29, 2024.

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KIRKLAND'S, INC.

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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, 2023	January 28, 2023	October 29, 2022	May 4, 2024	February 3, 2024	April 29, 2023
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,765	\$ 5,171	\$ 11,245	\$ 3,836	\$ 3,805	\$ 7,072
Inventories, net	105,190	84,071	126,315	75,789	74,090	83,332
Prepaid expenses and other current assets	5,863	5,089	7,126	6,540	7,614	4,905
Total current assets	116,818	94,331	144,686	86,165	85,509	95,309
Property and equipment:						
Equipment	19,556	19,614	19,929	19,119	19,144	19,630
Furniture and fixtures	65,302	66,906	68,580	63,516	63,823	66,115
Leasehold improvements	101,925	103,525	106,524	100,447	100,393	102,836
Computer software and hardware	83,236	81,685	80,142	78,561	78,580	82,130
Projects in progress	643	743	2,594	371	647	1,027
Property and equipment, gross	270,662	272,473	277,769	262,014	262,587	271,738
Accumulated depreciation	(239,014)	(233,797)	(235,140)	(234,277)	(232,882)	(235,592)
Property and equipment, net	31,648	38,676	42,629	27,737	29,705	36,146
Operating lease right-of-use assets	130,513	134,525	136,280	121,410	126,725	131,289
Other assets	6,848	6,714	7,979	7,271	8,634	7,137
Total assets	<u>\$ 285,827</u>	<u>\$ 274,246</u>	<u>\$ 331,574</u>	<u>\$ 242,583</u>	<u>\$ 250,573</u>	<u>\$ 269,881</u>
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY						
Current liabilities:						
Accounts payable	\$ 55,729	\$ 43,739	\$ 47,157	\$ 39,963	\$ 46,010	\$ 38,092
Accrued expenses	23,484	26,069	27,027	23,020	23,163	25,499
Operating lease liabilities	39,966	41,499	40,156	38,590	40,018	41,173
Total current liabilities	119,179	111,307	114,340	101,573	109,191	104,764
Operating lease liabilities	108,248	114,613	119,254	94,529	99,772	110,165

Revolving line of credit	62,000	15,000	60,000			
Long-term debt, net				47,541	34,000	33,000
Other liabilities	3,685	3,553	4,915	4,405	4,486	3,872
Total liabilities	293,112	244,473	298,509	248,048	247,449	251,801
Shareholders' (deficit) equity:						
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding at October 28, 2023, January 28, 2023, and October 29, 2022, respectively	—	—	—			
Common stock, no par value; 100,000,000 shares authorized; 12,923,677; 12,754,368; and 12,754,368 shares issued and outstanding at October 28, 2023, January 28, 2023, and October 29, 2022, respectively	176,260	175,450	174,949			
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding at May 4, 2024, February 3, 2024, and April 29, 2023, respectively				—	—	—
Common stock, no par value; 100,000,000 shares authorized; 13,038,978; 12,926,022; and 12,812,898, shares issued and outstanding at May 4, 2024, February 3, 2024, and April 29, 2023, respectively				176,793	176,552	175,864
Accumulated deficit	(183,545)	(145,677)	(141,884)	(182,258)	(173,428)	(157,784)
Total shareholders' (deficit) equity	(7,285)	29,773	33,065	(5,465)	3,124	18,080
Total liabilities and shareholders' (deficit) equity	\$ 285,827	\$ 274,246	\$ 331,574	\$ 242,583	\$ 250,573	\$ 269,881

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		13-Week Period Ended	
	October 28,	October 29,	October 28,	October 29,	May 4,	April 29,
	2023	2022	2023	2022	2024	2023
Net sales	\$ 116,365	\$ 130,962	\$ 302,744	\$ 336,348	\$ 91,753	\$ 96,875
Cost of sales	85,712	98,275	228,781	256,844	64,685	71,004
Gross profit	30,653	32,687	73,963	79,504	27,068	25,871
Operating expenses:						
Compensation and benefits	19,841	20,794	59,097	63,193	19,286	20,039
Other operating expenses	16,104	16,757	44,932	50,549	14,318	14,738
Depreciation (exclusive of depreciation included in cost of sales)	1,043	1,577	3,471	4,870	961	1,206

Asset impairment	316	219	1,542	447	11	225
Total operating expenses	37,304	39,347	109,042	119,059	34,576	36,208
Operating loss	(6,651)	(6,660)	(35,079)	(39,555)	(7,508)	(10,337)
Interest expense	1,163	704	2,415	1,226	1,127	502
Other income	(127)	(80)	(346)	(235)	(116)	(92)
Loss before income taxes	(7,687)	(7,284)	(37,148)	(40,546)	(8,519)	(10,747)
Income tax (benefit) expense	(1,290)	57	720	355		
Income tax expense					311	1,360
Net loss	\$ (6,397)	\$ (7,341)	\$ (37,868)	\$ (40,901)	\$ (8,830)	\$ (12,107)
Loss per share:						
Basic	\$ (0.50)	\$ (0.58)	\$ (2.95)	\$ (3.22)	\$ (0.68)	\$ (0.95)
Diluted	\$ (0.50)	\$ (0.58)	\$ (2.95)	\$ (3.22)	\$ (0.68)	\$ (0.95)
Weighted average shares outstanding:						
Basic	12,921	12,754	12,852	12,686	12,965	12,778
Diluted	12,921	12,754	12,852	12,686	12,965	12,778

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

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KIRKLAND'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY (UNAUDITED)
(in thousands, except share data)

	Total Shareholders' (Deficit) Equity				Total Shareholders' (Deficit) Equity			
	Common Stock		Accumulated Deficit	Total	Common Stock		Accumulated Deficit	Total
	Shares	Amount	Deficit	Equity	Shares	Amount	Deficit	(Deficit) Equity
Balance at January 28, 2023	12,754,368	\$ 175,450	\$ (145,677)	\$ 29,773				
Balance at February 3, 2024					12,926,022	\$ 176,552	\$ (173,428)	\$ 3,124
Restricted stock issued	86,824	—	—	—	134,597	—	—	—
Net share settlement of restricted stock units	(28,294)	(76)	—	(76)	(21,641)	(51)	—	(51)
Stock-based compensation expense	—	490	—	490	—	292	—	292
Net loss	—	—	(12,107)	(12,107)	—	—	(8,830)	(8,830)
Balance at April 29, 2023	12,812,898	175,864	(157,784)	18,080				
Restricted stock issued	104,475	—	—	—				

Stock-based compensation expense	—	124	—	124
Net loss	—	—	(19,364)	(19,364)
Balance at July 29, 2023	<u>12,917,373</u>	<u>175,988</u>	<u>(177,148)</u>	<u>(1,160)</u>
Restricted stock issued	8,334	—	—	—
Net share settlement of restricted stock units	(2,030)	(5)	—	(5)
Stock-based compensation expense	—	277	—	277
Net loss	—	—	(6,397)	(6,397)
Balance at October 28, 2023	<u>12,923,677</u>	<u>\$ 176,260</u>	<u>\$ (183,545)</u>	<u>\$ (7,285)</u>
Balance at May 4, 2024			<u>13,038,978</u>	<u>\$ 176,793</u>
			<u>\$ (182,258)</u>	<u>\$ (5,465)</u>

	Common Stock				Accumulated	Total	Common Stock				Accumulated	Total
	Common Stock		Accumulated	Shareholders'	Deficit	Equity	Common Stock		Accumulated	Shareholders'	Deficit	Equity
	Shares	Amount	Deficit	Equity			Shares	Amount	Deficit	Equity		
Balance at January 29, 2022	12,631,347	\$ 175,856	\$ (94,730)	\$	81,126							
Exercise of stock options	2,705	16	—	—	16							
Restricted stock issued	797,849	—	—	—	—							
Net share settlement of stock options and restricted stock units	(224,320)	(2,375)	—	—	(2,375)							
Stock-based compensation expense	—	548	—	—	548							
Repurchase and retirement of common stock	(479,966)	—	(6,253)	—	(6,253)							
Net loss	—	—	(7,855)	—	(7,855)							
Balance at April 30, 2022	<u>12,727,615</u>	<u>174,045</u>	<u>(108,838)</u>	<u>\$</u>	<u>65,207</u>							
Balance at January 28, 2023						<u>12,754,368</u>	<u>\$ 175,450</u>	<u>\$ (145,677)</u>	<u>\$</u>	<u>29,773</u>		
Restricted stock issued	28,574	—	—	—	—	86,824	—	—	—	—		
Net share settlement of restricted stock units	(1,821)	(8)	—	—	(8)	(28,294)	(76)	—	—	(76)		
Stock-based compensation expense	—	617	—	—	617	—	490	—	—	490		
Net loss	—	—	(25,705)	—	(25,705)	—	—	(12,107)	—	(12,107)		
Balance at July 30, 2022	<u>12,754,368</u>	<u>174,654</u>	<u>(134,543)</u>	<u>\$</u>	<u>40,111</u>							
Stock-based compensation expense	—	295	—	—	295							
Net loss	—	—	(7,341)	—	(7,341)							
Balance at October 29, 2022	<u>12,754,368</u>	<u>\$ 174,949</u>	<u>\$ (141,884)</u>	<u>\$</u>	<u>33,065</u>							
Balance at April 29, 2023						<u>12,812,898</u>	<u>\$ 175,864</u>	<u>\$ (157,784)</u>	<u>\$</u>	<u>18,080</u>		

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

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

	39-Week Period Ended		13-Week Period Ended	
	October 28,	October 29,	May 4,	April 29,
	2023	2022	2024	2023
Cash flows from operating activities:				
Net loss	\$ (37,868)	\$ (40,901)	\$ (8,830)	\$ (12,107)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation of property and equipment	9,118	12,925	2,624	3,257
Amortization of debt issue costs	80	69	131	20
Asset impairment	1,542	447	11	225
(Gain) loss on disposal of property and equipment	(20)	195		
Gain on disposal of property and equipment			(6)	(21)
Stock-based compensation expense	891	1,460	292	490
Changes in assets and liabilities:				
Inventories, net	(21,119)	(12,286)	(1,699)	739
Prepaid expenses and other current assets	(891)	3,184	1,063	184
Accounts payable	11,885	(14,648)	(5,653)	(5,792)
Accrued expenses	(2,775)	(1,873)	(133)	(570)
Income taxes payable (refundable)	307	(1,684)		
Operating lease assets and liabilities	(3,933)	(4,670)	(1,365)	(1,555)
Other assets and liabilities	97	(427)	(90)	349
Net cash used in operating activities	(42,686)	(58,209)	(13,655)	(14,781)
Cash flows from investing activities:				
Proceeds from sale of property and equipment	130	35	6	60
Capital expenditures	(3,313)	(6,964)	(770)	(846)
Net cash used in investing activities	(3,183)	(6,929)	(764)	(786)
Cash flows from financing activities:				
Borrowings on revolving line of credit	52,000	60,000	9,000	21,000
Repayments on revolving line of credit	(5,000)	—	(4,100)	(3,000)
Borrowings on term loan			10,000	—
Debt issuance costs	(456)	—	(399)	(456)
Cash used in net share settlement of stock options and restricted stock units	(81)	(2,383)	(51)	(76)
Proceeds received from employee stock option exercises	—	16		
Repurchase and retirement of common stock	—	(6,253)		
Net cash provided by financing activities	46,463	51,380	14,450	17,468
Cash and cash equivalents:				

Net increase (decrease)	594	(13,758)		
Net increase			31	1,901
Beginning of the period	5,171	25,003	3,805	5,171
End of the period	\$ 5,765	\$ 11,245	\$ 3,836	\$ 7,072
Supplemental schedule of non-cash activities:				
Non-cash accruals for purchases of property and equipment	\$ 804	\$ 573	\$ 390	\$ 844
Non-cash accruals for debt issuance costs			860	—

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

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KIRKLAND'S, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Description of Business and Basis of Presentation

Nature of Business — Kirkland's, Inc. (the "Company", "we", "our" or "us") is a specialty retailer of home décor and furnishings in the United States operating 339 329 stores in 35 states as of October 28, 2023 May 4, 2024, as well as an e-commerce website, www.kirklands.com, under the Kirkland's Home brand.

Principles of consolidation — The condensed consolidated financial statements of the Company include the accounts of Kirkland's, Inc. and its wholly-owned subsidiaries, Kirkland's Stores, Inc., Kirkland's DC, Inc., and Kirkland's Texas, LLC. Significant intercompany accounts and transactions have been eliminated.

Basis of presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and are presented in accordance with the requirements of Form 10-Q and pursuant to the reporting and disclosure rules and regulations of the United States Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K filed with the SEC on April 4, 2023 March 29, 2024.

Seasonality — The results of the Company's operations for the 13-week and 39-week periods period ended October 28, 2023 May 4, 2024 are not indicative of the results to be expected for any other interim period or for the entire fiscal year due to seasonality factors.

Fiscal year — The Company's fiscal year ends on the Saturday closest to January 31, resulting in years of either 52 or 53 weeks. Accordingly, fiscal 2024 represents the 52 weeks ending on February 1, 2025, and fiscal 2023 represents the 53 weeks ending ended on February 3, 2024.

Reclassifications — Certain amounts in the condensed consolidated statement of cash flows for the 13-week period ended April 29, 2023 in the operating activities section have been reclassified to conform to the current period presentation. Income taxes payable or receivable is no longer material to be presented as a separate line item and fiscal 2022 represents the 52 weeks ended on January 28, 2023. has been reclassified into prepaid and other current assets and accrued expenses.

Use of estimates — The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from the estimates and assumptions used. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than those at fiscal year-end.

Changes in estimates are recognized in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include, but are not limited to, impairment assessments on long-lived assets, inventory reserves, self-insurance reserves and deferred tax asset valuation allowances.

Going concern assessment and management's plans — The Company's revenues, results of operations and cash flows have been materially adversely impacted by strategic and macroeconomic factors during the last several fiscal quarters. The persistently challenging home furnishings retail environment, including reduced consumer spending in the category and increased price sensitivity, has significantly impacted the Company's performance and liquidity levels. During the 13-week period ended May 4, 2024, net sales decreased approximately \$5.1 million compared to the 13-week period ended April 29, 2023. This decline drove gross margin and operating loss to be worse than the Company's expectations. For the 13-week period ended May 4, 2024, the Company reported a net loss of \$8.8 million and net cash used in operating activities of \$13.7 million.

When conditions and events, in the aggregate, raise substantial doubt about an entity's ability to continue as a going concern, management evaluates the mitigating effect of its plans to determine if it is probable that the plans will be effectively implemented within the assessment period and, when implemented, will mitigate the relevant conditions and events to alleviate substantial doubt. The Company's plans are focused on improving its operating results and liquidity through sales growth and cost reductions. Subsequent to May 4, 2024, the Company decided to implement expense reductions to streamline its cost structure and improve its liquidity profile. The Company believes these actions are necessary as part of improving its profitability and liquidity trajectory, while minimizing any disruption to the Company's focus on its strategic initiatives and the overall customer experience. The cost savings initiatives include a

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reduction in corporate overhead, store payroll, marketing and third-party technology expenses. The Company expects to realize approximately \$6 million of savings in fiscal 2024 and estimates approximately \$7 million in ongoing annual pre-tax savings from these initiatives. In addition, the Company retained an investment banking firm specializing in consumer-facing companies to serve as financial advisor to the Board of Directors in the pursuit and evaluation of potential strategic opportunities to support the Company and its initiatives. The Company has not set a deadline or definitive timetable for the completion of the strategic alternatives review process, and there can be no assurance that this process will result in any particular outcome. The Company does not intend to comment further regarding the review of strategic alternatives until it determines disclosure is necessary or advisable.

The Company believes these plans will result in adequate cash flows to support its ongoing operations and to meet its covenant requirements for one year following the date these financial statements are issued. However, the Company cannot provide any assurance that its efforts will be successful, and if the Company encounters unforeseen circumstances that place further constraints on its capital resources, management will be required to take various additional measures to conserve liquidity. The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Note 2 – Revenue – Revenue Recognition

Net sales — The Company recognizes revenue at the time of sale of merchandise to customers in its stores. E-commerce revenue is recorded at the estimated time of delivery to the customer. Net sales includes the sale of merchandise, net of returns, shipping revenue, gift card breakage revenue and revenue earned from our private label credit card program and excludes sales taxes.

Sales returns reserve — The Company reduces net sales and estimates a liability for sales returns based on historical return trends, and the Company believes that its estimate for sales returns is a reasonably accurate reflection of future returns associated with past sales. However, as with any estimate, refund activity may vary from estimated amounts. The Company had a liability of approximately \$1.4 million, \$1.5 million and \$1.6 million reserved for sales returns at October 28, 2023, May 4, 2024, January 28, 2023, February 3, 2024 and October 29, 2022, April 29, 2023, respectively, included in accrued expenses on the condensed consolidated balance sheets. The related sales return reserve products recovery asset included in prepaid expenses and other current assets on the condensed consolidated balance sheets was approximately \$609,000, \$528,000, \$705,000, \$710,000 and \$745,000, \$590,000 at October 28, 2023, May 4, 2024, January 28, 2023, February 3, 2024, and October 29, 2022, April 29, 2023, respectively.

Deferred e-commerce revenue — The Company recognizes revenue at the time of sale of merchandise to customers in its stores. E-commerce revenue is recorded at the estimated time of delivery to the customer. If the Company receives payment before completion of its customer obligations, the revenue is deferred until the customer takes possession of the merchandise and the sale is complete, as the Company receives payment before completion of its customer obligations. Deferred revenue related to e-commerce orders that have been shipped but not estimated to be received by customers included in accrued expenses on the condensed consolidated balance sheets was approximately \$1.2 million, \$888,000, \$750,000 and \$1.2 million at October 28, 2023, May 4, 2024, January 28, 2023, February 3, 2024 and October 29, 2022, April 29, 2023, respectively. The related contract assets, reflected in inventories, net on the condensed

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consolidated balance sheets, totaled approximately \$566,000, \$446,000, \$359,000, \$387,000 and \$616,000, \$584,000 at October 28, 2023, May 4, 2024, January 28, 2023, February 3, 2024 and October 29, 2022, April 29, 2023, respectively.

Gift cards — Gift card sales are recognized as revenue when tendered for payment. While the Company honors all gift cards presented for payment, the Company determines the likelihood of redemption to be remote for certain gift card balances due to long periods of inactivity. The Company uses the redemption recognition method to account for breakage for unused gift card amounts where breakage is recognized as gift cards are redeemed for the purchase of goods based upon a historical breakage rate. In these circumstances, to the extent the Company determines there is no requirement for remitting unredeemed card balances to government agencies under unclaimed property laws, such amounts are recognized in the condensed consolidated statements of operations as a component of net sales.

The table below sets forth selected gift card liability information (in thousands) for the periods indicated:

	October 28, 2023	January 28, 2023	October 29, 2022
Gift card liability, net of estimated breakage (included in accrued expenses)	\$ 11,448	\$ 14,077	\$ 13,658

	May 4, 2024	February 3, 2024	April 29, 2023
Gift card liability, net of estimated breakage (included in accrued expenses)	\$ 11,092	\$ 12,008	\$ 12,444

The table below sets forth selected gift card breakage and redemption information (in thousands) for the periods indicated:

	13-Week Period Ended		39-Week Period Ended		13-Week Period Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022	May 4, 2024	April 29, 2023
Gift card breakage revenue (included in net sales)	\$ 338	\$ 189	\$ 1,673	\$ 582	\$ 328	\$ 1,031
Gift card redemptions recognized in the current period related to amounts included in the gift card contract liability balance as of the prior period	1,430	1,673	3,708	4,200	1,458	1,701

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Customer loyalty program — The Company has a loyalty program called the K-club that allows members to receive points based on qualifying purchases that are converted into certificates that may be redeemed on future purchases. This customer option is a material right and, accordingly, represents a separate performance obligation to the customer. The related loyalty program deferred revenue included in accrued expenses on the condensed consolidated balance sheets was approximately \$1.2 million, \$1.4 million, and \$1.0 million at October 28, 2023, May 4, 2024, January 28, 2023, February 3, 2024 and October 29, 2022, April 29, 2023, respectively.

Note 3 – Income Taxes

For the 13-week periods ended October 28, 2023, May 4, 2024 and October 29, 2022, the Company recorded an income tax benefit of approximately \$1.3 million, or 16.8% of the loss before income taxes compared to an expense of approximately \$57,000, or (0.8)% of the loss before income taxes, respectively. For the 39-week periods ended October 28, 2023 and October 29, 2022, April 29, 2023, the Company recorded an income tax expense of approximately \$720,000, \$311,000, or (1.9)(3.7)% of the loss before income taxes compared to an expense of approximately \$355,000, \$1.4 million, or (0.9)(12.7)% of the loss before income taxes, respectively. The change in income taxes for the 13-week and 39-week periods ended October 28, 2023, May 4, 2024, compared to the prior year period, was primarily due to changes in valuation allowance adjustments and state income taxes.

The Company recognizes deferred tax assets and liabilities using estimated future tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities, including net operating loss carry forwards. Management assesses the realizability of deferred tax assets and records a valuation allowance if it is more likely than not that all or a portion of the deferred tax assets will not be realized. The Company considers the probability of future taxable income and our historical profitability, among other factors, in assessing the amount of the valuation allowance. Adjustments could be required in the future if the Company estimates that the amount of deferred tax assets to be realized is more than the net amount recorded. Any change in the valuation allowance could have the effect of increasing or decreasing the income tax provision in the condensed consolidated statement of operations based on the nature of the deferred tax asset deemed realizable in the period in which such determination is made. As of October 28, 2023, May 4, 2024 and October 29, 2022, April 29, 2023, the Company recorded a full valuation allowance against deferred tax assets.

Note 4 – Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding during each period presented. Diluted loss per share is computed by dividing net loss by the weighted average number of shares outstanding plus the dilutive effect of stock equivalents outstanding during the applicable periods using the treasury stock method. Diluted loss per share reflects the

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potential dilution that could occur if options to purchase stock were exercised into common stock and if outstanding grants of restricted stock were vested. Stock options and restricted stock units that were not included in the computation of diluted loss per share, because to do so would have been antidilutive, were approximately 695,000, 887,000 shares and 531,000, 601,000 shares for the 13-week periods ended October 28, 2023, May 4, 2024 and October 29, 2022, respectively, and 696,000 shares and 597,000 shares for the 39-week periods ended October 28, 2023 and October 29, 2022, April 29, 2023, respectively.

Note 5 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in

active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of their short maturities. The revolving line of credit approximates fair value due to the one, three or six-month interest terms and the term loan approximates fair value due to the one-month interest terms. The Company also has a non-depleting collateral trust with the Company's workers' compensation and general liability insurance provider named as beneficiary. The assets in this trust are invested in financial instruments that would fall within Level 1 of the fair value hierarchy, and they are included in other assets on the consolidated balance sheets.

The Company measures certain assets at fair value on a non-recurring basis, including the evaluation of long-lived assets for impairment using Company-specific assumptions, including forecasts of projected financial information that would fall within Level 3 of the fair value hierarchy. The Company uses market participant rents (Level 2 input) to calculate the fair value of right-of-use assets and discounted future cash flows of the asset or asset group using a discount rate that approximates the cost of capital of a market participant (Level 2 input) to quantify fair value for other long-lived assets. See "Note 10—Impairment" for further discussion.

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Note 6 – Commitments and Contingencies

The Company was named as a defendant in a putative class action filed in April 2017 in the United States District Court for the Western District of Pennsylvania, *Gennock v. Kirkland's, Inc.* The complaint alleged that the Company, in violation of federal law, published more than the last five digits of a credit or debit card number on customers' receipts and sought statutory and punitive damages and attorneys' fees and costs. On October 21, 2019, the District Court dismissed the matter and ruled that the Plaintiffs did not have standing based on the Third Circuit's recent decision in *Kamal v. J. Crew Group, Inc.*, 918 F.3d 102 (3d. Cir. 2019). Following the dismissal in federal court, on October 25, 2019, the plaintiffs filed a Praecipe to Transfer the case to Pennsylvania state court, and on August 20, 2020, the court ruled that the plaintiffs have standing. The Company appealed that ruling, and on April 27, 2022, the Superior Court of Pennsylvania granted the Company's petition for permission to appeal. On May 16, 2023, the Superior Court of Pennsylvania ruled that plaintiffs lacked standing under Pennsylvania law and dismissed plaintiffs' complaint. On November 14, 2023, the Pennsylvania Supreme Court decided not to take the case on appeal. The matter is closed, and it did not have a material adverse effect on the Company's consolidated financial condition, operating results or cash flows.

The Company was named as a defendant in a putative class action filed in May 2018 in the Superior Court of California, *Miles v. Kirkland's Stores, Inc.* The case has been removed to United States District Court for the Central District of California. The complaint alleges, on behalf of Miles and all other hourly Kirkland's employees in California, various wage and hour violations and seeks unpaid wages, statutory and civil penalties, monetary damages and injunctive relief. Kirkland's denies the material allegations in the complaint and believes that its employment policies are generally compliant with California law. On March 22, 2022, the District Court denied the plaintiff's motion to certify in its entirety, and on May 26, 2022, the Ninth Circuit granted the plaintiff's petition for permission to appeal. The appeal was argued before the Ninth Circuit on November 13, 2023, and on January 8, 2024, the Court issued its opinion affirming the District Court in part and reversing in part. The Ninth Circuit affirmed the denial of certification as to the subclasses related to the security bag check and reversed as to the rest break claim. The Ninth Circuit did not find that there is liability nor that the rest break claim is certified. The District Court has stayed scheduled a hearing on the entire case pending the appeal. surviving rest break claim for June 7, 2024. The Company continues to believe the case is without merit and intends to vigorously defend itself against the allegations.

The Company was named as a defendant in a putative class action filed in August 2022 in the United States District Court for the Southern District of New York, *Sicard v. Kirkland's Stores, Inc.* The complaint alleges, on behalf of Sicard and all other hourly store employees based in New York, that Kirkland's violated New York Labor Law Section 191 by failing to pay him and the putative class members their wages within seven calendar days after the end of the week in which those wages were earned, rather paying wages on a bi-weekly basis. Plaintiff claims the putative class is entitled to recover from the Company

the amount of their untimely paid wages as liquidated damages, reasonable attorneys' fees and costs. The Company believes the case is without merit and intends to vigorously defend itself against the allegations.

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The Company is also party to other pending legal proceedings and claims that arise in the normal course of business. Although the outcome of such proceedings and claims cannot be determined with certainty, the Company's management is of the opinion that it is unlikely that such proceedings and any claims in excess of insurance coverage will have a material effect on its consolidated financial condition, operating results or cash flows.

Note 7 – Stock-Based Compensation

The Company maintains equity incentive plans under which it may grant non-qualified stock options, incentive stock options, restricted stock, restricted stock units, or stock appreciation rights to employees, non-employee directors and consultants. Compensation expense is recognized on a straight-line basis over the vesting periods of each grant. There have been no material changes in the assumptions used to compute compensation expense during the current year. The table below sets forth selected stock-based compensation information (in thousands, except share amounts) for the periods indicated:

	13-Week Period				13-Week Period Ended	
	Ended		39-Week Period Ended			
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022	May 4, 2024	April 29, 2023
Stock-based compensation expense (included in compensation and benefits on the condensed consolidated statements of operations)	\$ 277	\$ 295	\$ 891	\$ 1,460	\$ 292	\$ 490
Restricted stock units granted	—	50,000	374,440	409,800	299,250	301,780
Stock options granted	—	40,000	237,675	40,000	228,126	237,675

During the 39-week period ended October 29, 2022, the Company also granted performance-based restricted stock units ("PSUs") that are subject to the achievement of specified performance goals over a specified performance period. The performance metrics for the PSUs were earnings before interest, taxes, depreciation and amortization ("EBITDA") compared to target EBITDA and also included a relative shareholder return modifier. No shares were issued and no expense was recorded with respect to the PSUs granted in fiscal 2022, as the EBITDA performance condition was not probable of being achieved.

Note 8 – Share Repurchase Plan

On January 6, 2022, the Company announced that its Board of Directors authorized a share repurchase plan providing for the purchase in the aggregate of up to \$30.0 million of the Company's outstanding common stock. Repurchases of shares are made in accordance with applicable securities laws and may be made from time to time in the open market or by negotiated transactions. The amount and timing of repurchases are based on a variety of factors, including stock price, regulatory limitations and other market and economic factors. The share repurchase plan does not require the Company to repurchase any specific number of shares, and the Company may terminate the repurchase plan at any time. For the 13-week periods ended May 4, 2024 and April 29, 2023, the Company did not repurchase any shares of common stock under the share repurchase plan. As of October 28, 2023 May 4, 2024, the Company had approximately \$26.3 million remaining under the current share repurchase plan.

The table below sets forth selected share repurchase plan information (in thousands, except share amounts) for the periods indicated:

	13-Week Period Ended		39-Week Period Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Shares repurchased and retired	—	—	—	479,966
Share repurchase cost	\$ —	\$ —	\$ —	\$ 6,253

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Note 9 – Senior Credit Facility Long-Term Debt

Long-term debt, net consisted of the following (in thousands):

	May 4, 2024	February 3, 2024	April 29, 2023
Revolving line of credit	\$ 38,900	\$ 34,000	\$ 33,000
Term loan	10,000	—	—
Total debt	48,900	34,000	33,000
Less unamortized debt issuance costs	(1,359)	—	—
Long-term debt, net	\$ 47,541	\$ 34,000	\$ 33,000

On March 31, 2023, the Company entered into a Third Amended and Restated Credit Agreement (the “2023 Credit Agreement”) with Bank of America, N.A., as administrative agent and collateral agent, and lender. The 2023 Credit Agreement amended the previous Second Amended and Restated Credit Agreement (the “2019 Credit Agreement”) from a \$75.0 million senior secured revolving credit facility to a \$90.0 million senior secured revolving credit facility. The 2023 Credit Agreement contains substantially similar terms and conditions as the 2019 Credit Agreement including a swingline availability of \$10.0 million, a \$25.0 million incremental accordion feature and extended its maturity date to **March 2028. Advances March 2028.** The fee paid to the lenders on the unused portion of the 2023 Credit Agreement is 25 basis points when usage is greater than 50% of the facility amount; otherwise, the fee on the unused portion is 37.5 basis points per annum.

On January 25, 2024, the Company entered into a First Amendment to the 2023 Credit Agreement that increased the advance rate and allowed the Company to enter into a new term loan agreement. Subsequent to January 25, 2024, advances under the 2023 Credit Agreement **bear accrue** interest at an annual rate equal to the Secured Overnight Financing Rate (“SOFR”) plus a margin ranging from of **200 to 250 275** basis points with no SOFR floor. Upon the demonstration that the Company’s fixed charge coverage ratio is greater than 1.0 to 1.0 on a trailing twelve-month basis, the interest rate permanently decreases on the 2023 Credit Agreement to SOFR plus a margin of **150 to 200 225** basis points. **Advances Prior to January 25, 2024, advances** under the **2019 2023** Credit Agreement **bore accrued** interest at an annual rate equal to SOFR or the London Interbank Offered Rate (“LIBOR”) through December 16, 2022, plus a margin ranging from **125 200 to 175 250** basis points with no SOFR or LIBOR floor. The fee paid to the lenders on the unused portion of the 2023 Credit Agreement is 25 basis points when usage is greater than 50% of the facility amount; otherwise, the fee on the unused portion is 37.5 basis points per annum. Under the 2019 Credit Agreement, the fee on the unused portion was 25 basis points per annum.

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Borrowings under the Credit Agreements are subject to certain conditions, and the Credit Agreements contain customary events of default, including, without limitation, failure to make payments, a cross-default to certain other debt, breaches of covenants, breaches of representations and warranties, a change in control, certain monetary judgments and bankruptcy and certain events under the Employee Retirement Income Security Act of 1974 (“ERISA”). Upon any such event of default, the principal amount of any unpaid loans and all other obligations under the Credit Agreements may be declared immediately due and payable. The maximum availability under the Credit Agreements is limited by both a borrowing base formula, which consists of a percentage of eligible inventory and eligible credit card receivables, less reserves, and an excess required availability covenant, which limits the borrowing base formula by the greater of 10% of the borrowing base formula or \$8.0 million.

The Company is subject to a Second Amended and Restated Security Agreement (the “Security (“Security Agreement”) with **Bank of America, N.A. its lenders.** Pursuant to the Security Agreement, the Company pledged and granted to the administrative agent, for the benefit of itself and the secured parties specified therein, a lien on and security interest in all of the rights, title and interest in substantially all of the Company’s assets to secure the payment and performance of the obligations under the **2023 Credit Agreements. Agreement.**

On January 25, 2024, the Company entered into a \$12.0 million “first-in, last-out” delayed-draw asset-based term loan (the “Term Loan”) with Gordon Brothers Group, via an affiliate entity, 1903P Loan Agent, LLC, as administrative agent and lender. The indebtedness under the Term Loan is subordinated in most respects to the 2023 Credit Agreement. The Term Loan will mature in March 2028, coterminous with the 2023 Credit Agreement. From closing until the first anniversary of the closing, the interest rate of the Term Loan is one-month term SOFR, plus a margin of 9.50%. Following the first anniversary of the closing, the interest rate will increase to one-month term SOFR, plus a margin of 11.50%.

Borrowings under the 2023 Credit Agreement and the Term Loan are subject to certain conditions and contain customary events of default, including, without limitation, failure to make payments, a cross-default to certain other debt, breaches of covenants, breaches of representations and warranties, a change in control, certain monetary judgments and bankruptcy and ERISA events. Upon any such event of default, the principal amount of any unpaid loans and all other obligations under the 2023 Credit Agreement and the Term Loan may be declared immediately due and payable. The maximum availability under the 2023 Credit Agreement and the Term Loan is limited by a borrowing base formula, which consists of a percentage of eligible inventory and eligible credit card receivables, less reserves and an excess required availability covenant, which limits the borrowing base formula by the greater of 10% of the combined borrowing base formula or \$8.0 million.

As of **October 28, 2023** **May 4, 2024**, the Company was in compliance with the covenants in the 2023 Credit **Agreement. Under Agreement and the Term Loan.** As of **May 4, 2024**, there were no letters of credit outstanding under either the 2023 Credit Agreement **there were \$62.0 million in outstanding borrowings and no letters** or the Term Loan. As of **credit outstanding with** **May 4, 2024**, the Company had approximately **\$27.2**0.8 million available for borrowing **as of October 28, 2023, before** under the 2023 Credit Agreement and the Term Loan, after the minimum required excess availability covenant. Availability under the Credit Agreement and the Term Loan fluctuates largely based on eligible inventory levels, and as eligible inventory increases in the second and third fiscal quarters in support of the Company’s back-half sales plans, the Company’s borrowing capacity increases correspondingly. Subsequent to **May 4, 2024**, the Company borrowed an additional \$2.0 million under the 2023 Credit Agreement.

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Note 10 – Impairment

The Company evaluates the recoverability of the carrying amounts of long-lived assets when events or changes in circumstances dictate that their carrying values may not be recoverable. This review includes the evaluation of individual under-performing retail stores and the assessment of the recoverability of the carrying value of the assets related to the stores. Future cash flows are projected for the remaining lease life. If the estimated future cash flows are less than the carrying value of the assets, the Company records an impairment charge equal to the difference between the assets’ fair value and carrying value. The fair value is estimated using a discounted cash flow approach, considering such factors as future sales levels, gross margins, changes in rent and other expenses as well as the overall operating environment specific to that store. The amount of the impairment charge is allocated proportionately to all assets in the asset group with no asset written down below its individual fair value.

The table below sets forth impairment information (in thousands, except store counts) for the periods indicated:

	13-Week Period Ended		39-Week Period Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Impairment of leasehold improvements, fixtures and equipment at stores	\$ 268	\$ 154	\$ 595	\$ 382
Impairment of other long-lived assets ⁽¹⁾	48	65	947	65
Total impairment	\$ 316	\$ 219	\$ 1,542	\$ 447
Number of stores with leasehold improvements, fixtures and equipment impairment	4	2	6	4
			13-Week Period Ended	

	May 4, 2024	April 29, 2023
Impairment of leasehold improvements, fixtures and equipment at stores	\$ 11	\$ 179
Impairment of other long-lived assets ⁽¹⁾	—	46
Total impairment	<u>\$ 11</u>	<u>\$ 225</u>
Number of stores with leasehold improvements, fixtures and equipment impairment	—	2

⁽¹⁾ Other long-lived asset impairment includes the write-off of software costs, cloud computing implementation costs and fixtures related to the closing of two e-commerce distribution centers in fiscal 2023.

Note 11 – Subsequent Event New Accounting Pronouncements

Subsequent New Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-07, “Segment Reporting (Topic 280) - Improvements to October 28, 2023 Reportable Segment Disclosures.” The amendment in the ASU is intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. The amendments in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and should be applied on a retrospective basis to all periods presented. The Company is currently evaluating the impact of adoption on its financial disclosures.

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740) - Improvements to Income Tax Disclosures.” The ASU requires that an entity disclose specific categories in the effective tax rate reconciliation as well as provide additional information for reconciling items that meet a quantitative threshold. Further, the ASU requires certain disclosures of state versus federal income tax expense and taxes paid. The amendments in this ASU are required to be adopted for fiscal years beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued. The amendments should be applied on a prospective basis although retrospective application is permitted. The Company repaid a net \$27.0 million under is currently evaluating the 2023 Credit Agreement. impact of adoption on its financial disclosures.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to provide the reader with information that will assist in understanding the significant factors affecting our consolidated operating results, financial condition, liquidity, and capital resources during the 13-week and 39-week periods ended October 28, 2023 May 4, 2024 and October 29, 2022 April 29, 2023. For a comparison of our results of operations for the 53-week period ended February 3, 2024 and the 52-week periods period ended January 28, 2023 and January 29, 2022, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended January 28, 2023 February 3, 2024, filed with the SEC on April 4, 2023 March 29, 2024 (the “Annual Report”). The following discussion should be read with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

Except for historical information contained herein, certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements that are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements deal with potential future circumstances and developments and are, accordingly, forward-looking in nature. You are cautioned that such forward-looking statements, which may be identified by words such as “anticipate,” “believe,” “expect,” “estimate,” “intend,” “plan,” “seek,” “may,” “could,” “strategy,” and similar expressions, involve

known and unknown risks and uncertainties, many of which are outside of the Company's control, which may cause our actual results to differ materially from forecasted results. Those risks and uncertainties include, among other things, risks associated with the Company's liquidity including cash flows from operations and the amount of borrowings under the secured revolving credit facility and term loan, the Company's ability to successfully implement cost savings and other strategic initiatives intended to improve operating results and liquidity positions, the Company's actual and anticipated progress towards its short-term and long-term objectives including its brand strategy, the risk of natural disasters, pandemic outbreaks (such as COVID-19), global political events, war and terrorism could impact the Company's revenues, inventory and supply chain, the continuing consumer impact of inflation and countermeasures, including raising interest rates, the effectiveness of the Company's marketing campaigns, risks related to changes in U.S. policy related to imported merchandise, particularly with regard to the impact of tariffs on goods imported from China and strategies undertaken to mitigate such impact, the Company's ability to retain its senior management team, continued volatility in the price of the Company's common stock, the competitive environment in the home décor industry in general and in our specific market areas, inflation, fluctuations in cost and availability of inventory, increased transportation costs and potential interruptions in supply chain, distribution systems and delivery network, including our e-commerce systems and channels, the ability to control employment and other operating costs, availability of suitable retail locations and other growth opportunities, disruptions in information technology systems including the potential for security breaches of our information or our customers' information, seasonal fluctuations in consumer spending, and economic conditions in general. Those and other risks are more fully described in our filings with the Securities and Exchange Commission, including the Company's Annual Report and subsequent reports. Forward-looking statements included in this Quarterly Report on Form 10-Q are made as of the date hereof. Any changes in assumptions or factors on which such statements are based could produce materially different results. Except as required by law, we disclaim 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.

Overview

We are a specialty retailer of home décor and furnishings in the United States. As of **October 28, 2023** **May 4, 2024**, we operated a total of **339 329** stores in 35 states, as well as an e-commerce website, www.kirklands.com, under the Kirkland's Home brand. We provide our customers with an engaging shopping experience characterized by a curated, affordable selection of home décor and furnishings along with inspirational design ideas. This combination of quality and stylish merchandise, value pricing and a stimulating in-store and online and store experience allows environment provides our customers with a unique brand experience.

Challenging Macroeconomic Conditions

The macroeconomic environment in which we operate remains uncertain as a result of numerous factors, including inflationary pressures, higher interest rates, declines in consumer spending behavior and aggressive promotional activity. These negative macroeconomic factors have impacted our business, results of operations, cash flows and liquidity levels over the last several fiscal quarters. They have also made it difficult to furnish their home at a great value. execute our strategic initiatives, including our financial turnaround strategy. See "Liquidity and Capital Resources" for additional information regarding our plans to mitigate these factors.

For additional information regarding risks related to macroeconomics, liquidity and strategy and strategy execution, see "Item 1A. Risk Factors" in our Annual Report.

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Key Financial Measures

Net sales and gross profit are the most significant drivers of our operating performance. Net sales consists of all merchandise sales to customers, net of returns, shipping revenue associated with e-commerce sales, gift card breakage revenue, revenue earned from our private label credit card program and excludes sales taxes. Gross profit is the difference between net sales and cost of sales. Cost of sales has five distinct components: merchandise costs (including product costs, inbound freight expenses, inventory shrink and damages), store occupancy costs, outbound freight costs (including both store and e-

commerce shipping expenses), central distribution costs and depreciation of store and distribution center assets. Merchandise and outbound freight costs are variable, while occupancy and central distribution costs are largely fixed. Accordingly, gross profit expressed as a percentage of net sales can be influenced by many factors including overall sales performance.

We use comparable sales to measure sales increases and decreases from stores that have been open for at least 13 full fiscal months, including our online sales. We remove closed stores from our comparable sales calculation the day after the stores close. Relocated

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stores remain in our comparable sales calculation. E-commerce sales, including shipping revenue, are included in comparable sales. Increases in comparable sales are an important factor in maintaining or increasing our profitability.

Operating expenses, including the costs of operating our stores and corporate headquarters, are also an important component of our operating performance. Compensation and benefits comprise the majority of our operating expenses. Operating expenses contain fixed and variable costs, and managing the operating expense ratio (operating expenses expressed as a percentage of net sales) is an important focus of management as we seek to increase our overall profitability. Operating expenses include cash costs as well as non-cash costs, such as depreciation and amortization associated with omni-channel technology, corporate property and equipment, and impairment of long-lived assets. Because many operating expenses are fixed costs, and because operating costs tend to rise over time, increases in comparable sales typically are necessary to prevent meaningful increases in the operating expense ratio. Operating expenses can also include certain costs that are of a one-time or non-recurring nature. While these costs must be considered to fully understand our operating performance, we typically identify such costs separately where significant in the consolidated statements of operations so that we can evaluate comparable expense data across different periods.

Stores

The following table summarizes store information during the periods indicated:

	13-Week Period Ended		39-Week Period Ended		13-Week Period Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022	May 4, 2024	April 29, 2023
New store openings	—	1	—	1	1	—
Permanent store closures	1	1	7	6	2	3
Store relocations	1	—	1	—		
Decrease in store units	(0.3)%	0.0%	(2.0)%	(1.4)%	(0.3)%	(0.9)%

The following table summarizes our open stores and square footage under lease as of the dates indicated:

	October 28, 2023	October 29, 2022	May 4, 2024	April 29, 2023
Number of stores	339	356	329	343
Square footage	2,744,048	2,855,146	2,667,560	2,768,564
Average square footage per store	8,095	8,020	8,108	8,072

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13-Week Period Ended October 28, 2023 **May 4, 2024** Compared to the 13-Week Period Ended **October April 29, 2022** **2023**

Results of operations. The table below sets forth selected results of our operations both in dollars (in thousands) and as a percentage of net sales for the periods indicated:

	13-Week Period Ended						13-Week Period Ended					
	October 28, 2023		October 29, 2022		Change		May 4, 2024		April 29, 2023		Change	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Net sales	\$ 116,365	100.0%	\$ 130,962	100.0%	\$ (14,597)	(11.1)%	\$ 91,753	100.0%	\$ 96,875	100.0%	\$ (5,122)	(5.3)%
Cost of sales	85,712	73.7	98,275	75.0	(12,563)	(12.8)	64,685	70.5	71,004	73.3	(6,319)	(8.9)
Gross profit	30,653	26.3	32,687	25.0	(2,034)	(6.2)	27,068	29.5	25,871	26.7	1,197	4.6
Operating expenses:												
Compensation and benefits	19,841	17.0	20,794	15.9	(953)	(4.6)	19,286	21.0	20,039	20.7	(753)	(3.8)
Other operating expenses	16,104	13.8	16,757	12.8	(653)	(3.9)	14,318	15.6	14,738	15.2	(420)	(2.8)
Depreciation (exclusive of depreciation included in cost of sales)	1,043	0.9	1,577	1.2	(534)	(33.9)	961	1.1	1,206	1.3	(245)	(20.3)
Asset impairment	316	0.3	219	0.2	97	44.3	11	—	225	0.2	(214)	(95.1)
Total operating expenses	37,304	32.0	39,347	30.1	(2,043)	(5.2)	34,576	37.7	36,208	37.4	(1,632)	(4.5)
Operating loss	(6,651)	(5.7)	(6,660)	(5.1)	9	(0.1)	(7,508)	(8.2)	(10,337)	(10.7)	2,829	(27.4)
Interest expense	1,163	1.0	704	0.6	459	65.2	1,127	1.2	502	0.5	625	124.5
Other income	(127)	(0.1)	(80)	(0.1)	(47)	58.8	(116)	(0.1)	(92)	(0.1)	(24)	26.1
Loss before income taxes	(7,687)	(6.6)	(7,284)	(5.6)	(403)	5.5	(8,519)	(9.3)	(10,747)	(11.1)	2,228	(20.7)
Income tax (benefit) expense	(1,290)	(1.1)	57	0.0	(1,347)	(2,363.2)						
Income tax expense							311	0.3	1,360	1.4	(1,049)	(77.1)
Net loss	\$ (6,397)	(5.5)%	\$ (7,341)	(5.6)%	\$ 944	(12.9)%	\$ (8,830)	(9.6)%	\$ (12,107)	(12.5)%	\$ 3,277	(27.1)%

Net sales. Net sales decreased 11.1% 5.3% to \$116.4 million \$91.8 million for the third first 13 weeks of fiscal 2023 2024 compared to \$131.0 million \$96.9 million for the prior year period, which includes a 4.8% decline in store count. period. Comparable sales including e-commerce sales, decreased 9.2% 3.5%, or \$11.8 million \$3.3 million, for the third first 13 weeks of fiscal 2023 2024 compared to the prior year period. For the third first 13 weeks of fiscal 2023, 2024, e-commerce comparable sales decreased 8.5% 19.1% compared to the prior year period, and store comparable sales decreased 9.5% increased 2.8% compared to the prior year period. The decrease in comparable sales was driven by a decrease in consolidated average ticket and a decline in both in-store and online traffic, which was partially offset by higher conversion in both channels. store traffic and conversion. Merchandise categories performing below prior period levels include furniture, harvest seasonal housewares, mirrors, outdoor and wall décor, textiles, while gift, decorative accessories and Christmas seasonal floral performed above prior period levels.

Gross profit. Gross profit as a percentage of net sales increased 130 280 basis points from 25.0% 26.7% in the third first 13 weeks of fiscal 2022 2023 to 26.3% 29.5% in the third first 13 weeks of fiscal 2023, 2024. The overall increase in gross profit margin was due to favorable outbound freight costs, merchandise margin, distribution center costs and depreciation, partially offset by unfavorable store occupancy costs. Outbound freight costs, including both store and e-commerce shipping expenses, decreased approximately 180 basis points to 5.9% of net sales due to the decline in shipping expense related to the decrease in e-commerce sales and fewer shipping routes to the stores. Merchandise margin increased approximately 110 70 basis points from 52.9% 56.8% in the third 13 weeks of fiscal 2022 to 54.0% in the third first 13 weeks of fiscal 2023 to 57.5% in the first 13 weeks of fiscal 2024, mainly due to lower inbound freight rates a higher initial product markup and inventory levels, along with improved product flow. margin on clearance activity. Distribution center costs decreased approximately 110 50 basis points to 6.1% 5.1% of net sales due to improved levels increased efficiency and a smooth inventory flow which led to lower compensation and benefits costs and lower fixed costs due to the closure of cost capitalization in inventory the two e-commerce fulfillment locations in the current year period. prior year. Depreciation of store and distribution center assets decreased approximately 40 30 basis points to 1.5% 1.8% of net sales in the third first 13 weeks of fiscal 2023 2024, due to certain assets becoming fully depreciated. Store occupancy costs increased approximately 130 50 basis points to 12.1% 15.2% of net sales due to the sales deleverage on these fixed costs. Outbound freight costs, including both store and e-commerce shipping expenses, remained consistent at 8.0% of net sales, as lower inventory levels and fewer shipping routes to the stores offset increased e-commerce shipping expenses.

Compensation and benefits. Compensation and benefits as a percentage of net sales increased approximately 110 30 basis points from 15.9% 20.7% in the third 13 weeks of fiscal 2022 to 17.0% in the third first 13 weeks of fiscal 2023 to 21.0% in the first 13 weeks of fiscal 2024, primarily due to sales deleverage of higher store payroll costs, partially offset by reductions in corporate salaries, compensation and benefits costs.

Other operating expenses. Other operating expenses as a percentage of net sales increased approximately 100 40 basis points from 12.8% 15.2% in the third first 13 weeks of fiscal 2022 2023 to 13.8% 15.6% in the third first 13 weeks of fiscal 2023, 2024. The decrease increase as a percentage of net sales was primarily related to the deleverage of advertising operating expenses, and other expenses, while the decrease of approximately \$420,000 was due to expense reductions, partially offset by increased consulting costs for strategic advisory services.

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Income tax (benefit) expense. We recorded income tax benefit expense of approximately \$1.3 million, \$311,000, or 16.8% (3.7%) of the loss before income taxes, during the third first 13 weeks of fiscal 2023, 2024, compared to an income tax expense of approximately \$57,000, \$1.4 million, or (0.8) (12.7%) of the loss

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before income taxes, during the prior year period. The change in the tax rate for the **third first** 13 weeks of fiscal **2023 2024** compared to the prior period was primarily due to **changes in** valuation allowance adjustments and state income taxes.

Net loss and loss per share. We reported net loss of **\$6.4 million \$8.8 million**, or a loss of **\$0.50 \$0.68** per diluted share, for the **third first** 13 weeks of fiscal **2023 2024** as compared to net loss of **\$7.3 million \$12.1 million**, or a loss of **\$0.58** per diluted share, for the third 13 weeks of fiscal 2022.

39-Week Period Ended October 28, 2023 Compared to the 39-Week Period Ended October 29, 2022

Results of operations. The table below sets forth selected results of our operations both in dollars (in thousands) and as a percentage of net sales for the periods indicated:

	39-Week Period Ended					
	October 28, 2023		October 29, 2022		Change	
	\$	%	\$	%	\$	%
Net sales	\$ 302,744	100.0%	\$ 336,348	100.0%	\$ (33,604)	(10.0)%
Cost of sales	228,781	75.6	256,844	76.4	(28,063)	(10.9)
Gross profit	73,963	24.4	79,504	23.6	(5,541)	(7.0)
Operating expenses:						
Compensation and benefits	59,097	19.5	63,193	18.8	(4,096)	(6.5)
Other operating expenses	44,932	14.8	50,549	15.1	(5,617)	(11.1)
Depreciation (exclusive of depreciation included in cost of sales)	3,471	1.2	4,870	1.4	(1,399)	(28.7)
Asset impairment	1,542	0.5	447	0.1	1,095	245.0
Total operating expenses	109,042	36.0	119,059	35.4	(10,017)	(8.4)
Operating loss	(35,079)	(11.6)	(39,555)	(11.8)	4,476	(11.3)
Interest expense	2,415	0.8	1,226	0.4	1,189	97.0
Other income	(346)	(0.1)	(235)	(0.1)	(111)	47.2
Loss before income taxes	(37,148)	(12.3)	(40,546)	(12.1)	3,398	(8.4)
Income tax expense	720	0.2	355	0.1	365	102.8
Net loss	\$ (37,868)	(12.5)%	\$ (40,901)	(12.2)%	\$ 3,033	(7.4)%

Net sales. Net sales decreased 10.0% to \$302.7 million for the first 39 weeks of fiscal 2023 compared to \$336.3 million for the prior year period, which includes a 4.8% decline in store count. Comparable sales, including e-commerce sales, decreased 7.9%, or \$25.8 million for the first 39 weeks of fiscal 2023 compared to the prior year period. For the first 39 weeks of fiscal 2023, e-commerce comparable sales decreased 10.4%, and store sales decreased 6.9% compared to the prior year period. The decrease in comparable sales is primarily due to a decrease in traffic and ticket in stores and online, partially offset by an increase in conversion. Most merchandise categories performed below prior period levels.

Gross profit. Gross profit as a percentage of net sales increased 80 basis points from 23.6% in the first 39 weeks of fiscal 2022 to 24.4% in the first 39 weeks of fiscal 2023. The overall increase in gross profit margin was due to favorable merchandise margin and depreciation, partially offset by unfavorable store occupancy costs, distribution center costs and outbound freight costs. Merchandise margin increased approximately 200 basis points from 52.1% in the first 39 weeks of fiscal 2022 to 54.1% in the first 39 weeks of fiscal 2023 mainly due to lower inbound freight costs and lower inventory levels. Depreciation of store and distribution center assets decreased approximately 50 basis points to 1.9% of net sales in the first 39 weeks of fiscal 2023 due to certain assets becoming fully depreciated. Store occupancy costs increased approximately 140 basis points to 13.9% of net sales due to the sales deleverage on these fixed costs. Distribution center costs increased approximately 20 basis points to 6.0% of net sales due to sales deleverage and high levels of cost capitalization in inventory in the prior year period, partially offset by lower operating costs. Outbound freight costs, including both store and e-commerce shipping expenses, increased approximately 10 basis points to 7.9% of net sales.

Compensation and benefits. Compensation and benefits as a percentage of net sales increased approximately 70 basis points from 18.8% in the first 39 weeks of fiscal 2022 to 19.5% in the first 39 weeks of fiscal 2023 primarily due to the deleverage of store payroll expenses.

Other operating expenses. Other operating expenses as a percentage of net sales decreased approximately 30 basis points from 15.1% in the first 39 weeks of fiscal 2022 to 14.8% for the first 39 weeks of fiscal 2023. The decrease as a percentage of net sales was primarily related to a reduction in advertising expenses, partially offset by sales deleverage.

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Income tax expense. We recorded income tax expense of approximately \$720,000, or (1.9)% of the loss before income taxes, during the first 39 weeks of fiscal 2023 compared to income tax expense of \$355,000, or (0.9)% of the loss before income taxes, during the prior year period. The change in the tax rate for the first 39 weeks of fiscal 2023 compared to the prior period was primarily due to valuation allowance adjustments and state income taxes.

Net loss and loss per share. We reported net loss of \$37.9 million, or a loss of \$2.95 \$0.95 per diluted share, for the first 39 13 weeks of fiscal 2023 as compared to a net loss of \$40.9 million, or a loss of \$3.22 per diluted share, for the first 39 weeks of fiscal 2022, 2023.

Non-GAAP Financial Measures

To supplement our unaudited consolidated condensed financial statements presented in accordance with U.S. generally accepted accounting principles ("GAAP"), we provide certain non-GAAP financial measures, including EBITDA, adjusted EBITDA and adjusted operating loss. These measures are not in accordance with, and are not intended as alternatives to, GAAP financial measures. The Company uses We use these non-GAAP financial measures internally in analyzing our financial results and believes believe that they provide useful information to analysts and investors, as a supplement to GAAP financial measures, in evaluating the Company's our operational performance.

The Company defines We define EBITDA as net loss before interest and the provision for income tax, which is equivalent to operating loss, adjusted for depreciation and asset impairment, adjusted EBITDA as EBITDA with non-GAAP adjustments and adjusted operating loss as operating loss with non-GAAP adjustments. adjusted EBITDA including depreciation.

Non-GAAP financial measures are intended to provide additional information only and do not have any standard meanings prescribed by GAAP. Use of these terms may differ from similar measures reported by other companies. Each non-GAAP financial measure has its limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of the Company's results as reported under GAAP. The Company's non-GAAP adjustments remove asset impairment and stock-based compensation expense, due to the non-cash nature of these expenses, this expense, and remove severance, charges and lease termination costs, as those expenses can fluctuate it fluctuates based on the needs of the business and do does not represent a normal, recurring operating expense.

The following table shows a reconciliation of operating loss to EBITDA, adjusted EBITDA and adjusted EBITDA operating loss (in thousands) for the 13-week and 39-week periods ended October 28, 2023 May 4, 2024 and October 29, 2022 April 29, 2023:

	13-Week Period Ended		39-Week Period Ended		13-Week Period Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022	May 4, 2024	April 29, 2023
Operating loss	\$ (6,651)	\$ (6,660)	\$ (35,079)	\$ (39,555)	\$ (7,508)	\$ (10,337)
Depreciation	2,769	4,088	9,118	12,925	2,624	3,257
Asset impairment ⁽¹⁾					11	225
EBITDA	(3,882)	(2,572)	(25,961)	(26,630)	(4,873)	(6,855)
Non-GAAP adjustments:						
Closed store and lease termination costs in cost of sales ⁽¹⁾	—	—	—	46		
Asset impairment ⁽²⁾	316	219	1,542	447		
Stock-based compensation expense ⁽³⁾	277	295	891	1,460		
Severance charges ⁽⁴⁾	50	397	957	776		
Total adjustments in operating expenses	643	911	3,390	2,683		

Non-GAAP adjustments to operating expenses:						
Stock-based compensation expense ⁽²⁾					292	490
Severance charges ⁽³⁾					73	529
Total non-GAAP adjustments	643	911	3,390	2,729	365	1,019
Adjusted EBITDA	(3,239)	(1,661)	(22,571)	(23,901)	(4,508)	(5,836)
Depreciation	2,769	4,088	9,118	12,925	2,624	3,257
Adjusted operating loss	\$ (6,008)	\$ (5,749)	\$ (31,689)	\$ (36,826)	\$ (7,132)	\$ (9,093)

⁽¹⁾ Costs associated with asset disposals, closed stores and lease termination costs.

⁽²⁾ Asset impairment charges are related primarily to property and equipment, software costs equipment. Asset impairment was previously shown as a non-GAAP adjustment. The current presentation includes asset impairment as a reconciling item between operating loss and cloud computing implementation costs. EBITDA. Prior periods have been reclassified to conform to the current period presentation.

⁽³⁾⁽²⁾ Stock-based compensation expense includes amounts amortized to expense expensed related to equity incentive plans.

⁽⁴⁾⁽³⁾ Severance charges include expenses related to severance agreements and permanent store closure compensation costs.

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Liquidity and Capital Resources

Our principal capital requirements are for working capital and capital expenditures. Working capital consists mainly of merchandise inventories offset by accounts payable, which typically reach their peak by the early portion of the fourth quarter of each fiscal year. Capital expenditures primarily relate to existing store maintenance, refreshes and remodels, technology and omni-channel projects, existing store refreshes, remodels and maintenance, new or relocated stores and distribution center and supply chain enhancements, stores. Historically, we have funded our working capital and capital expenditure requirements with internally generated cash and borrowings under our asset-based revolving credit facility.

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In fiscal 2023, we entered into an additional asset-based delay-draw term loan to provide additional liquidity, as internally generated cash and borrowings under our existing asset-based revolving credit facility did not provide enough liquidity to effectively execute our financial turnaround strategy in fiscal 2024. Subsequent to May 4, 2024, we decided to implement expense reductions to streamline our cost structure and improve our liquidity profile. We believe these actions are necessary as part of improving our profitability and liquidity trajectory, while minimizing any disruption to our focus on our strategic initiatives and the overall customer experience. The cost savings initiatives include a reduction in corporate overhead, store payroll, marketing and third-party technology expenses. We expect to realize approximately \$6 million of savings in fiscal 2024 and estimate approximately \$7 million in ongoing annual pre-tax savings from these initiatives. In addition, we retained an investment banking firm specializing in consumer-facing companies to serve as our financial advisor in the pursuit and evaluation of potential strategic opportunities to support us and our initiatives. We have not set a deadline or definitive timetable for the completion of the strategic alternatives review process, and there can be no assurance that this process will result in any particular outcome. We do not intend to comment further regarding the review of strategic alternatives until it determines disclosure is necessary or advisable.

We believe that the combination of our cash balances, cash flow from operations, availability under our 2023 Credit Agreement and our Term Loan and the aforementioned expense reductions will be sufficient to fund our projected operating requirements for at least the next twelve months. However, we

cannot provide any assurance that our efforts will be successful, and if we encounter unforeseen circumstances that place further constraints on our capital resources, we will be required to take various additional measures to conserve liquidity. The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Cash flows from operating activities. Net cash used in operating activities was approximately \$42.7 million \$13.7 million and \$58.2 million \$14.8 million during the first 39 13 weeks of fiscal 2023 2024 and the first 39 13 weeks of fiscal 2022, 2023, respectively. Cash flows from operating activities depend heavily on operating performance and changes in working capital. The decrease in the amount of cash used in operations as compared to the prior year period was mainly due to changes in working capital including an increase in accounts payable, improved operating results, partially offset by changes a decline in inventory levels, as we were over stocked in the prior fiscal year, working capital.

Cash flows from investing activities. Net cash used in investing activities for the first 39 13 weeks of fiscal 2023 2024 consisted primarily of \$3.3 million \$770,000 in capital expenditures as compared to \$7.0 million \$846,000 in capital expenditures for the prior year period. The table below sets forth capital expenditures by category (in thousands) for the periods indicated:

	39-Week Period Ended		13-Week Period Ended	
	October 28, 2023	October 29, 2022	May 4, 2024	April 29, 2023
Existing stores			\$ 544	\$ 311
Technology and omni-channel projects	\$ 1,619	\$ 3,536	118	496
Existing stores	896	1,959		
New and relocated stores	484	426	102	—
Corporate	243	136	6	3
Distribution center and supply chain enhancements	71	907	—	36
Total capital expenditures	\$ 3,313	\$ 6,964	\$ 770	\$ 846

The capital expenditures in the current and prior year period related primarily to technology and omni-channel projects and the maintenance of existing stores, stores and technology and omni-channel projects.

Cash flows from financing activities. During the first 39 13 weeks of fiscal 2024, net cash provided by financing activities was \$14.5 million, as we borrowed \$10.0 million under our term loan and borrowed a net \$4.9 million under our revolving credit facility. During the first 13 weeks of fiscal 2023, net cash provided by financing activities was \$46.5 million approximately \$17.5 million, as we borrowed \$52.0 million a net \$18.0 million under our revolving credit facility, which was partially offset by repayments of \$5.0 million. During the first 39 weeks of fiscal 2022, net cash provided by financing activities was approximately \$51.4 million as we borrowed \$60.0 million under our revolving credit facility, which was partially offset by the repurchase and retirement of our common stock pursuant to our share repurchase plan of \$6.3 million and \$2.4 million of cash used in the net share settlement of equity incentive awards, facility.

Senior credit facility. Long-term debt. On March 31, 2023, we entered into the 2023 Credit Agreement with Bank of America, N.A., as administrative agent and collateral agent, and lender. The 2023 Credit Agreement amended the 2019 Credit Agreement from a \$75.0 million senior secured revolving credit facility to a \$90.0 million senior secured revolving credit facility. The 2023 Credit Agreement contains substantially similar terms and conditions as the 2019 Credit Agreement including a swingline availability of \$10.0 million, a \$25.0 million incremental accordion feature and extended its maturity date to March 2028. Advances under the 2023 Credit Agreement bear interest at an annual rate equal to SOFR plus a margin ranging from 200 to 250 basis points with no SOFR floor. Upon the demonstration that the Company's fixed charge coverage ratio is greater than 1.0 to 1.0 on a trailing twelve-month basis, the interest rate permanently decreases on the 2023 Credit Agreement to SOFR plus a margin of 150 to 200 basis points. Advances under the 2019 Credit Agreement bore interest at an annual rate equal to SOFR, or LIBOR through December 16, 2022, plus a margin ranging from 125 to 175 basis points with no SOFR or LIBOR floor. The fee paid to the lenders on the unused portion of the 2023 Credit Agreement is 25 basis points when usage is greater than 50% of the facility amount; otherwise, the fee on the unused portion is 37.5 basis points per annum. Under

On January 25, 2024, we entered into a First Amendment to the 2019 2023 Credit Agreement that increased the fee on the unused portion was 25 basis points per annum.

Borrowings advance rate and allowed us to enter into a new Term Loan agreement. Subsequent to January 25, 2024, advances under the 2023 Credit Agreements are subject to certain conditions, and the Credit Agreements contain customary events of default, including, without limitation, failure to make payments, a cross-default to certain other debt, breaches of covenants, breaches of representations and warranties, a change in control, certain monetary judgments and bankruptcy and certain events under ERISA. Upon any such event of default, the principal amount of any unpaid loans and all other obligations under the Credit Agreements may be declared immediately due and payable. The maximum availability under the Credit Agreements is limited by both a borrowing base formula, which consists of a percentage of eligible inventory and eligible credit card receivables, less reserves, and an excess required availability covenant, which limits the borrowing base formula by the greater of 10% of the borrowing base formula or \$8.0 million. Agreement accrue interest

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at an annual rate equal to the Secured Overnight Financing Rate ("SOFR") plus a margin of 275 basis points with no SOFR floor. Upon the demonstration that our fixed charge coverage ratio is greater than 1.0 to 1.0 on a trailing twelve-month basis, the interest rate permanently decreases on the 2023 Credit Agreement to SOFR plus a margin of 225 basis points. Prior to January 25, 2024, advances under the 2023 Credit Agreement accrued interest at an annual rate equal to SOFR plus a margin ranging from 200 to 250 basis points with no SOFR floor.

We are subject to a Security Agreement with Bank of America, N.A. our lenders. Pursuant to the Security Agreement, we pledged and granted to the administrative agent, for the benefit of itself and the secured parties specified therein, a lien on and security interest in all of the rights, title and interest in substantially all of our assets to secure the payment and performance of the obligations under the 2023 Credit Agreements. Agreement.

On January 25, 2024, we entered into a \$12.0 million "first-in, last-out" delayed-draw asset-based Term Loan with Gordon Brothers Group, via an affiliate entity, 1903P Loan Agent, LLC, as administrative agent and lender. The indebtedness under the Term Loan is subordinated in most respects to the 2023 Credit Agreement. The Term Loan will mature in March 2028, coterminous with the 2023 Credit Agreement. From closing until the first anniversary of the closing, the interest rate of the Term Loan will be one-month term SOFR, plus a margin of 9.50%. Following the first anniversary of the closing, the interest rate will increase to one-month term SOFR, plus a margin of 11.50%.

Borrowings under the 2023 Credit Agreement and the Term Loan are subject to certain conditions and contain customary events of default, including, without limitation, failure to make payments, a cross-default to certain other debt, breaches of covenants, breaches of representations and warranties, a change in control, certain monetary judgments and bankruptcy and ERISA events. Upon any such event of default, the principal amount of any unpaid loans and all other obligations under the 2023 Credit Agreement and the Term Loan may be declared immediately due and payable. The maximum availability under the 2023 Credit Agreement and the Term Loan is limited by a borrowing base formula, which consists of a percentage of eligible inventory and eligible credit card receivables, less reserves and an excess required availability covenant, which limits the borrowing base formula by the greater of 10% of the combined borrowing base formula or \$8.0 million.

As of October 28, 2023 May 4, 2024, we were in compliance with the covenants in the 2023 Credit Agreement. Under Agreement and the 2023 Credit Agreement, there Term Loan. There were approximately \$62.0 million of outstanding borrowings and no letters of credit outstanding with and approximately \$27.2 million \$38.9 million, \$34.0 million and \$33.0 million of outstanding borrowings under the 2023 Credit Agreement at May 4, 2024, February 3, 2024 and April 29, 2023, respectively. There were \$10.0 million of outstanding borrowings under the Term Loan at May 4, 2024, and no borrowings under the Term Loan at February 3, 2024. As of May 4, 2024, we had approximately \$0.8 million available for borrowing as of October 28, 2023, before under the 2023 Credit Agreement and the Term Loan, after the minimum required excess availability covenant. Availability under our Credit Agreement and our Term Loan fluctuates largely based on eligible inventory levels, and as eligible inventory increases in the second and third fiscal quarters in support of the Company's back-half sales plan, our borrowing capacity increases correspondingly. Subsequent to October 28, 2023 May 4, 2024, we repaid a net \$27.0 million borrowed an additional \$2.0 million under the 2023 Credit Agreement.

As of October 28, 2023, our balance of cash and cash equivalents was approximately \$5.8 million. We believe that the combination of our cash balances, cash flow from operations and availability under our 2023 Credit Agreement will be sufficient to fund our planned capital expenditures and working capital requirements for at least the next twelve months.

Share repurchase plan. On January 6, 2022, we announced that our Board of Directors authorized a share repurchase plan providing for the purchase in the aggregate of up to \$30.0 million of our outstanding common stock. Repurchases of shares are made in accordance with applicable securities laws and may be made from time to time in the open market or by negotiated transactions. The amount and timing of repurchases are based on a variety of factors, including stock price, regulatory limitations and other market and economic factors. The share repurchase plans do not require us to repurchase any specific number of shares, and we may terminate the repurchase plans at any time. We did not repurchase any shares of common stock under our share repurchase plan during the first 13 weeks of fiscal 2024 or 2023. As of October 28, 2023 May 4, 2024, we had approximately \$26.3 million remaining under the current share repurchase plan.

The table below sets forth selected share repurchase plan information (in thousands, except share amounts) for the periods indicated:

	13-Week Period Ended		39-Week Period Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Shares repurchased and retired	—	—	—	479,966
Share repurchase cost	\$ —	\$ —	\$ —	\$ 6,253

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies or estimates during the 39-week 13-week period ended October 28, 2023 May 4, 2024. Refer to our Annual Report for a summary of our critical accounting policies and a discussion of the critical accounting estimates and assumptions impacting our consolidated financial statements.

New Accounting Pronouncements

See “Note 11 — New Accounting Pronouncements” in the condensed consolidated financial statements for accounting pronouncements not yet adopted.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate changes, primarily as a result of borrowings under our Credit Agreements, long-term debt agreements, as discussed in “Note 9 — Senior Credit Facility, Long-Term Debt,” in the notes to the condensed consolidated financial statements, which bear interest based on variable rates. As of October 28, 2023 We had \$38.9 million, we had \$62.0 million \$34.0 million, \$33.0 million in outstanding borrowings under our 2023 Credit Agreement. As of October 29, 2022 Agreement at May 4, 2024, we February 3, 2024, and April 29, 2023, respectively. We had \$60.0 million \$10.0 million in outstanding borrowings under our 2019 Credit Agreement. Term Loan at May 4, 2024, and no borrowings under our Term Loan at February 3, 2024. Subsequent to October 28, 2023 May 4, 2024, we repaid a net \$27.0 million borrowed an additional \$2.0 million under our 2023 Credit Agreement. A one percent increase or decrease in the interest rate on borrowings under our revolving credit facility 2023 Credit Agreement or Term Loan at our recent borrowing levels would not have a material impact to our results of operations.

We manage cash and cash equivalents in various institutions at levels beyond federally insured limits per institution, and we may purchase investments not guaranteed by the Federal Deposit Insurance Company. Accordingly, there is a risk that we will not recover the full principal of our investments or that their liquidity may be diminished.

We were not engaged in any foreign exchange contracts, hedges, interest rate swaps, derivatives or other financial instruments as of **October 28, 2023** **May 4, 2024**.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Both our **Interim** Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer), after the evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) was performed by management with the participation of our **Interim** Chief Executive Officer and Chief Financial Officer, have concluded that, as of **October 28, 2023** **May 4, 2024**, our disclosure controls and procedures were effective as of the end of the period covered by this report.

Change in internal controls over financial reporting. There have been no changes in internal control over financial reporting that have occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of the Company's legal proceedings, refer to "Note 6 — Commitments and Contingencies," in the notes to the condensed consolidated financial statements.

ITEM 1A. RISK FACTORS

The risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report should be carefully considered together with the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and in our other filings with the SEC, in connection with evaluating the Company, our business, and the forward-looking statements contained in this Quarterly Report on Form 10-Q. There have been no material changes to our risk factors as previously disclosed in the Annual Report. The risks described in this report and in our Annual Report are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Repurchases of Equity Securities

On January 6, 2022, **we the Company** announced that **our its** Board of Directors authorized **a** share repurchase **plans plan** providing for the purchase in the aggregate of up to \$30.0 million of **our the Company's** outstanding common stock. Repurchases of shares are made in accordance with applicable securities laws and may be made from time to time in the open market or negotiated transactions. The amount and timing of repurchases are based on a variety of factors, including stock price, regulator limitations and other market and economic factors. The share repurchase plans do not require us to repurchase any specific number of shares, and **we the Company** may terminate the repurchase plans at any time. **There were no** **For the 13-week period ended May 4, 2024, the Company did not repurchase any shares of common stock** **repurchased by under** the **Company during the 39-week period ended October 28, 2023.** **share repurchase plan.** As of **October 28, 2023** **May 4, 2024**, the Company had approximately \$26.3 million remaining under the current share repurchase plan.

ITEM 5. OTHER INFORMATION

None of our directors or officers adopted or terminated a Rule 10b5-1 trading arrangement during the quarter ended May 4, 2024.

ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit No.	Description of Document
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

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SIGNATURES

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

Date: **November 30, 2023** June 6, 2024

KIRKLAND'S, INC.

/s/ **Ann Amy E. Joyce Sullivan**

Ann Amy E. Joyce Sullivan

Interim President, Chief Executive Officer and Director

Date: **November 30, 2023** June 6, 2024

/s/ W. Michael Madden

W. Michael Madden

Executive Vice President **and** Chief Financial Officer

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, **Ann Amy E. Joyce, Sullivan**, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kirkland's, Inc. ("registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 30, 2023** **June 6, 2024**

/s/ **Ann Amy E. Joyce Sullivan**

Ann Amy E. Joyce Sullivan

Interim President, Chief Executive Officer and Director

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, W. Michael Madden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kirkland's, Inc. ("registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 30, 2023 June 6, 2024

/s/ W. Michael Madden

W. Michael Madden

Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Kirkland's, Inc. (the "Company") on Form 10-Q for the **third first** quarter ended **October 28, 2023** **May 4, 2024**, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, **Ann Amy E. Joyce, Interim Sullivan, President**, Chief Executive Officer and Director of the Company, certify, to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company the dates and for the periods expressed in the Report.

/s/ **Ann Amy E. Joyce Sullivan**

Interim President, Chief Executive Officer and Director

November 30, 2023 **June 6, 2024**

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Kirkland's, Inc. (the "Company") on Form 10-Q for the **third first** quarter ended **October 28, 2023** **May 4, 2024**, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, **W. Michael Madden, Executive Vice President, Chief Financial Officer** of the Company, certify, to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company the dates and for the periods expressed in the Report.

/s/ **W. Michael Madden**

Executive Vice President and Chief Financial Officer

November 30, 2023 **June 6, 2024**

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