



KIRKLAND'S®

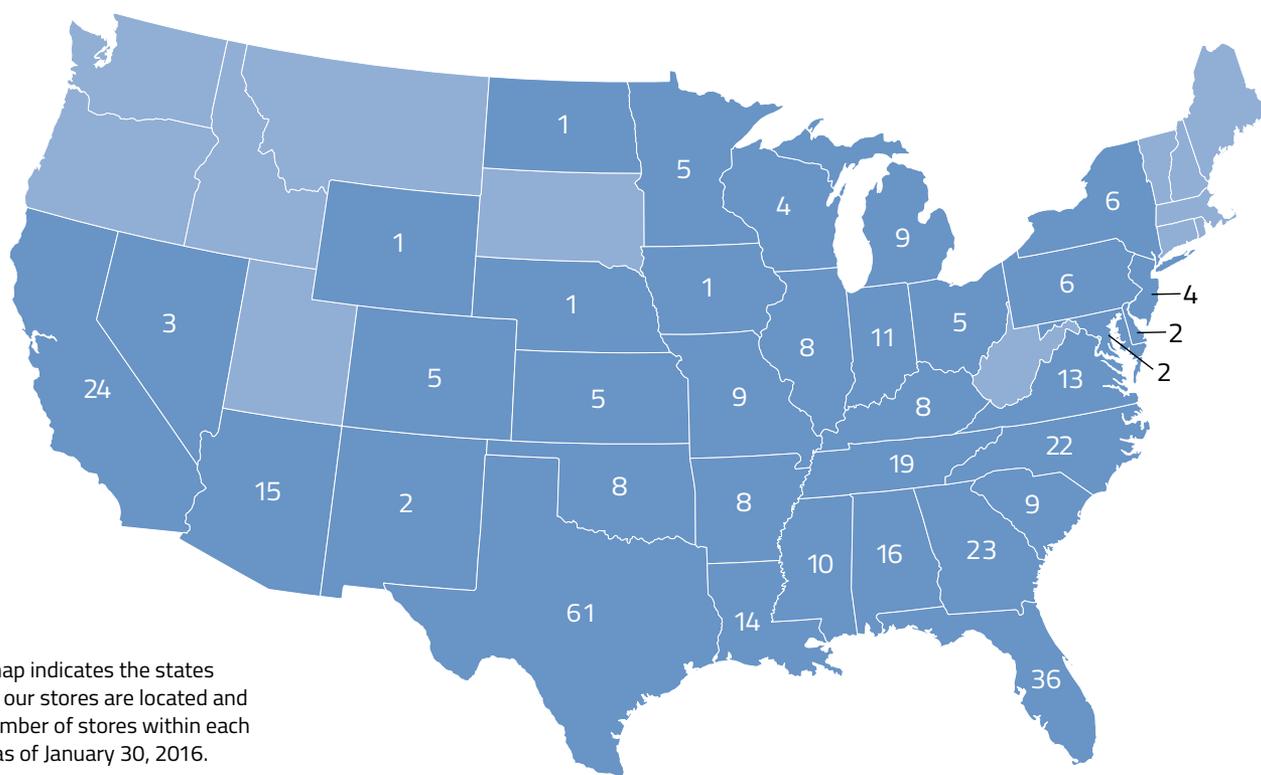
ENVISIONING A MORE
DISTINCTIVE HOME

ANNUAL REPORT 2015

FINANCIAL HIGHLIGHTS

(In thousands, except per share data and performance metrics)

	Fiscal 2015 (52 Weeks)	Fiscal 2014 (52 Weeks)	Fiscal 2013 (52 Weeks)
STATEMENT OF INCOME DATA			
Total revenue	\$ 561,807	\$ 507,621	\$ 460,563
Gross profit	218,794	202,897	180,816
Operating income	26,191	28,641	23,992
Pretax income	26,097	28,820	23,959
Net income	16,573	17,814	14,530
Diluted earnings per share	\$ 0.94	\$ 1.00	\$ 0.82
Dividends declared per share	\$ 1.50	—	—
BALANCE SHEET DATA			
Cash and cash equivalents	\$ 44,352	\$ 99,138	\$ 89,050
Inventories, net	68,222	55,775	52,637
Total assets	238,585	260,487	235,448
Total shareholders' equity	119,695	151,062	135,229
OTHER FINANCIAL DATA			
Comparable store sales increase	2.9%	6.1%	0.5%
Number of stores at year end	376	344	324
Gross profit margin	38.9%	40.0%	39.3%
Return on assets	6.6%	7.2%	6.5%
Return on equity	12.2%	12.4%	11.5%



DEAR SHAREHOLDER

In 1966, our founders Carl and Robert Kirkland had an inspiration to create a retail concept with a singular belief: “Great style can come at a great price - always!” The concept has evolved and thrived through tremendous economic and social change, and this vision continues to guide our strategy. As we observe our 50th anniversary this year, we’re unified behind our core purpose of inspiring customers with the warm emotions and pride of home sweet home. The organization is stronger than ever, and I’m confident Kirkland’s best years are ahead as we build on Carl and Robert’s principles.

Kirkland’s is a special place. Every day, I am humbled by the opportunity to work with such talented and dedicated people. The retail world is changing rapidly while becoming increasingly complex. For all of us in the retail business, driving profitable growth is a tall order. Our management team and employees are up to the task, approaching everything we do with passion and intensity. I value our culture of addressing the challenges head on while keeping our focus on the customer first.

While we encountered some headwinds in 2015, we made considerable progress to deliver on our long-term objectives. Total sales increased 10.7%, driven by a combination of positive comparable store sales and a solid class of new store openings. We are converting more of our traffic into transactions as we capture customers’ imagination with a distinct offering in stores and online. E-Commerce revenue increased 38% in 2015, reaching 7% of total revenue. We’re not just substituting one channel for another. A large percentage of e-Commerce orders are being picked up in store, which generates additional traffic and brand interaction. The relationship we have cultivated between customers, stores, and the digital channel is a key pillar of strength that we will continue to build upon.

In 2015, we also continued to deliver value for our shareholders, returning \$51 million in cash through a special dividend and share repurchases. We ended the year in a strong financial position, with no debt and ample liquidity to invest in the business and execute our growth strategy.

As we start 2016, the organization is mobilized around a single vision: to transform Kirkland’s into a high-performing, nationally recognized home décor brand of choice, one that delivers a distinctive and special experience for our customer. We believe that can translate into double-digit annual revenue growth with improving profitability and an interim goal of a high-single-digit operating margin.

The core pillars to support that transformation include reinforcing a culture of continuous improvement, enhancing our omni-channel platform, optimizing real estate development, and improving in-store productivity. I’ll share a few examples of how stronger collaboration across the organization is driving significant opportunity to improve the business and create long-term value.

CONTINUOUS IMPROVEMENT

Kirkland’s people are our most important resource, and we’ve strengthened our teams, adding senior level talent in real estate, marketing, supply chain, information technology, human resources, and legal functions.

We’re getting smarter every day as we learn new things about our business, leverage our systems, and refine our processes. For example, we’ve seen measurable improvement in new store openings and core product replenishment, and we’re reviewing incentive plans to link behaviors to our long-term strategy. A big part of long-term success comes from getting better at the little things day in and day out. An ongoing goal for our continuous improvement initiative will be to build upon the operating expense leverage we began to see in 2015.

DIGITAL / OMNI CHANNEL

We see a similar opportunity to improve our omni-channel experience. The digital business continues to accelerate, and we see the potential to increase its penetration to 10% over the next few years. We’re achieving strong attachment rates on promotions geared to in-store pickup, and we’re working on ways to improve the experience by accelerating delivery times and offering more options for the customer.



Our goal is to transform Kirkland’s into a high-performing, nationally recognized home décor brand of choice, one that delivers a distinctive and special experience for our customer.



The relationship we have cultivated between customers, stores, and the digital channel is a key pillar of strength that we will continue to build upon.

Many of our current initiatives to drive this part of the strategy involve the supply chain. We moved into a separate e-Commerce fulfillment center in the first quarter of 2016, and this will ultimately allow us to increase efficiency and handle larger volume in peak seasons. Higher ticket categories like furniture, art, and wall décor are popular online and allow us to carry multiple styles that are not available in stores. We also implemented a drop-ship program in 2015, and we're optimistic about its expansion and positive impact on the channel and its profitability.

REAL ESTATE

We opened 43 stores in 2015 for 11% square footage growth, and we're planning 6% to 8% growth in 2016. We continue to see a path to 500 stores, but we're taking a holistic approach to market development that takes into account optimal penetration given both e-Commerce and brick & mortar presences. We are also testing store design concepts to modify how stores should be built and function in the future to account for an ever growing shift to e-Commerce.

Our new store activity for 2015 touched 22 states, with concentrations in the upper Midwest and Mid-Atlantic, and we were able to improve our positioning in several markets through relocations. Our loyalty program and e-Commerce channel are providing a wealth of data on our shopper, and we're adding that to an improved site selection process to refine how we look at growth in new and existing markets. Now that we have customer and psychographic data informing the process, we're moving to better understand competitive dynamics.

SALES PRODUCTIVITY

We're supporting unit expansion and digital growth with a broad initiative to increase sales per store. Our merchandising and store teams are executing on a plan to improve sell through by driving each leg of the sales model: traffic, conversion, average retail price, and units per transaction. We've improved the interaction between merchandising, visual presentation, and stores. Stronger linkage between these groups is helping achieve higher customer conversion rates.

Marketing efforts will dovetail with that and support near-term traffic driving initiatives while positioning us for our long-term brand strategy. The Kirkland's customer shops multiple channels and competitors for home décor, and we need to make sure she thinks of us early in the process. We'll continue to focus on conversion and average unit retail while maintaining share through traffic driving initiatives.

As Kirkland's CEO, I am proud of what we accomplished in 2015. We've come a long way since 1966, but our original vision continues to guide our strategy. I'm excited about 2016 and confident that our unique culture, product, value proposition, and customer experience will continue to inspire shoppers for years to come.

Thank you for your support, and we hope to see you in our stores and online.

W. Michael Madden
President and Chief Executive Officer

DIRECTORS AND OFFICERS

DIRECTORS

R. WILSON ORR, III

Chairman of the Board of Directors
Managing Partner, SSM Partners

CARL T. KIRKLAND

Retired Co-Founder
Kirkland's, Inc.

ROBERT E. ALDERSON

Private Investor

STEVEN J. COLLINS

Managing Director
Advent International

MILES T. KIRKLAND, CFA

Senior Vice President and
Portfolio Manager
Truxton Trust

W. MICHAEL MADDEN

President and Chief Executive Officer
Kirkland's, Inc.

JEFFERY C. OWEN

Executive Vice President of Store Operations
Dollar General Corporation

RALPH T. PARKS

President
RT Parks, Inc.

MURRAY M. SPAIN

Retired Co-Founder
Dollar Express, Inc.

OFFICERS

W. MICHAEL MADDEN

President and Chief Executive Officer

MICHELLE R. GRAUL

Executive Vice President of Stores
and Merchandising

KEN L. BUETTNER

Vice President of Information Services

KARLA Q. CALDERON

Vice President of Merchandising

MICHAEL CLEM

Vice President of Real Estate

ADAM C. HOLLAND

Vice President and Chief Financial Officer

GARY F. JORDAN

Vice President of Logistics

KATHY W. KRAHN

Vice President of Store Operations

GARA A. PRYOR

Vice President of Human Resources

CARTER R. TODD

Vice President, General Counsel and
Corporate Secretary

BRADLEY G. WAHL

Vice President of Marketing and e-Commerce

CORPORATE DATA

CORPORATE HEADQUARTERS

Kirkland's, Inc.
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Brentwood, Tennessee 37027
615.872.4800
www.kirklands.com

TRANSFER AGENT AND REGISTRAR

Broadridge Corporate Issuer Solutions
1717 Arch Street
Suite 1300
Philadelphia, PA 19103
877.830.4936
Shareholders seeking information concerning
stock transfers, change of address, and
lost certificates should contact Broadridge
Corporate Issuer Solutions directly.

INDEPENDENT AUDITORS

Ernst & Young LLP
Nashville, Tennessee

ANNUAL REPORT ON FORM 10-K

A copy of the Company's fiscal 2015
Annual Report on Form 10-K as filed with
the Securities and Exchange Commission
is available to shareholders by contacting
the Investor Relations Department at the
Company's address above.

ANNUAL MEETING

The Annual Meeting of Shareholders will be
held at 9:00 a.m. Central Daylight Time on
June 1, 2016, at Kirkland's Headquarters,
5310 Maryland Way, Brentwood, Tennessee.

FORWARD-LOOKING STATEMENTS

Except for historical information contained
herein, the statements made herein are
forward-looking and made pursuant to
the safe harbor provisions of the Private
Securities Litigation Reform Act of 1995.
Forward-looking statements involve known
and unknown risks and uncertainties,

which may cause Kirkland's actual results
to differ materially from forecasted results.
Those risks and uncertainties include,
among other things, the competitive
environment in the home décor industry in
general and in Kirkland's specific market
areas, inflation, product availability and
growth opportunities, seasonal fluctuations,
and economic conditions in general. Those
and other risks are more fully described
in Kirkland's filings with the Securities
and Exchange Commission, including the
Company's Annual Report on Form 10-K
filed on April 8, 2016. Kirkland's disclaims
any obligation to update any such factors or
to publicly announce results of any revisions
to any of the forward-looking statements
contained herein to reflect future events or
developments.

STOCK MARKET INFORMATION

The Company's common stock is traded
on the NASDAQ Global Market under
the symbol KIRK. On March 31, 2016,
there were 51 holders of record and 4,423
beneficial owners of the Company's
common stock. The following table sets
forth, for the periods indicated, the high and
low last sale prices of shares of the common
stock as reported by NASDAQ:

Fiscal 2015:	High	Low
First Quarter	\$ 26.49	\$ 22.47
Second Quarter	\$ 28.72	\$ 23.97
Third Quarter	\$ 27.97	\$ 21.03
Fourth Quarter	\$ 24.11	\$ 11.39

Fiscal 2014:	High	Low
First Quarter	\$ 20.04	\$ 16.60
Second Quarter	\$ 19.39	\$ 16.04
Third Quarter	\$ 19.41	\$ 15.26
Fourth Quarter	\$ 24.44	\$ 17.70



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