

KIRKLAND'S, INC
Form DEF 14A
April 29, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

KIRKLAND S, INC.

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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W. Michael Madden

President and Chief Executive Officer

April 29, 2016

Dear Shareholder:

It is my pleasure to invite you to attend our Annual Meeting of Shareholders, which will be held at 9:00 a.m., local time, on Wednesday, June 1, 2016 at the Company's headquarters, 5310 Maryland Way, Brentwood, Tennessee 37027. The doors will open at 8:30 a.m., local time. Our directors and management team will be available to answer questions.

The Notice of Annual Meeting, Proxy Statement and proxy card accompanying this letter describe the business to be conducted at the meeting. Our 2015 Annual Report to Shareholders, which is not a part of our proxy solicitations materials, is also enclosed. We encourage you to read our Annual Report.

We hope you will be able to join us. Whether or not you plan to attend, if you hold your shares in registered form, please sign, date and return your proxy card as soon as possible. If, on the other hand, you hold your shares through a bank, brokerage firm or other nominee, please sign, date and return to your bank, brokerage firm or other nominee the enclosed voting instruction form, or if you prefer, you can vote by telephone or through the Internet in accordance with instructions set forth in the enclosed voting instruction form. If you attend the meeting, your shares will be voted as instructed in your proxy, or you may withdraw your proxy at the meeting and vote your shares in person.

I look forward to seeing you on June 1.

Sincerely,
W. Michael Madden
President and Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Wednesday, June 1, 2016

9:00 a.m. local time

Kirkland's Corporate Office

5310 Maryland Way

Brentwood, TN 37027

April 29, 2016

Dear Shareholder:

You are invited to the 2016 Annual Meeting of Shareholders (the Annual Meeting) of Kirkland's, Inc. We will hold the meeting at the time and place noted above. At the meeting, we will ask you to:

Elect three Class II directors, Susan S. Lanigan, W. Michael Madden and Charlie Pleas, III, each for a term of three years;

Ratify the selection of Ernst & Young LLP as our independent registered public accounting firm;

Hold an advisory vote on executive compensation;

Vote on an amendment to the Company's 2002 Employee Stock Purchase Plan to increase the number of shares available for issuance under that Plan; and

Vote on any other business properly brought before the meeting.

Your vote is important. To be sure your vote counts and assure a quorum, please vote, sign, date and return the enclosed proxy card or voting instruction form whether or not you plan to attend the meeting; or if you prefer and if you hold your shares through a bank, brokerage firm or other nominee, please follow the instructions on the enclosed voting instruction form for voting by Internet or by telephone whether or not you plan to attend the meeting in person. The record date for voting eligibility at the Annual Meeting was the close of business on April 6, 2016.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON JUNE 1, 2016.

THE NOTICE AND PROXY STATEMENT AND THE ANNUAL REPORT TO SHAREHOLDERS ARE AVAILABLE AT http://ir.kirklands.com/Annual_Meeting.

By order of the Board of Directors,

Carter R. Todd

*Vice President, General Counsel and
Corporate Secretary*

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IMPORTANT

It is important that your shares be represented at the Annual Meeting. You are cordially invited to attend the Annual Meeting in person. If you plan to attend the Annual Meeting, you must have an admission ticket or other proof of share ownership as of the record date.

You will not be admitted to the Annual Meeting without proper identification (such as a driver's license or passport) and either proof of your ownership of Kirkland's common stock or proof that you hold a valid proxy from a shareholder who held Kirkland's common stock as of the record date of the Annual Meeting.

Registration will begin at 8:30 a.m., local time. Please allow ample time for check-in. Please bring proper identification and evidence of either your stock ownership or the grant of any valid proxy you hold with you in order to be admitted to the Annual Meeting. If your shares (or the shares of the shareholder who granted you the proxy) are held in the name of a bank, broker, or other nominee holder and you plan to attend the Annual Meeting in person, please bring a copy of your broker statement, the proxy card mailed to you by your bank or broker or other proof of ownership of Kirkland's common stock (or the equivalent proof of ownership as of the close of business on the record date of the shareholder who granted you the proxy). For information on requirements relating to voting your shares in person at the Annual Meeting, see Item I Information About Voting on page 1 of the accompanying Proxy Statement.

Cameras, cell phones, recording equipment, and other electronic devices will not be permitted at the meeting.

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I. INFORMATION ABOUT VOTING

Solicitation of Proxies

The Board of Directors (the Board of Directors or the Board) of Kirkland's, Inc. (Kirkland's or the Company) is soliciting proxies for use at our annual meeting of shareholders to be held on June 1, 2016 (the Annual Meeting) and any adjournments of that meeting. We first mailed this proxy statement, the accompanying form of proxy and our Annual Report to Shareholders for our fiscal year ending January 30, 2016 (fiscal 2015) on or about April 29, 2016.

Agenda Items

The agenda for the Annual Meeting is to:

1. Elect three Class II directors;
2. Ratify the selection of Ernst & Young LLP as our independent registered public accounting firm;
3. Hold an advisory vote on executive compensation;
4. Consider and vote on an amendment to the Company's 2002 Employee Stock Purchase Plan to increase the number of shares available for issuance under that Plan (the ESPP Amendment); and
5. Vote on any other business properly brought before the meeting.

Who Can Vote

You can vote at the Annual Meeting if you are a holder of our common stock, no par value per share (Common Stock), on the record date. The record date is the close of business on April 6, 2016. You will have one vote for each share of Common Stock. As of April 6, 2016, there were 15,782,652 shares of Common Stock outstanding and entitled to vote.

How to Vote

For Shares Held Directly in the Name of the Shareholder

If you hold your shares in registered form and not through a bank, brokerage firm or other nominee, you may vote your shares in one of two ways:

In Person. If you choose to vote in person, you can attend the Annual Meeting and cast your vote in person; or

Voting By Mail. If you choose to vote by mail, complete the enclosed proxy card, date and sign it, and return it in the postage-paid envelope provided. If you sign your proxy card and return it without marking any voting instructions, your shares will be voted in favor of each of the proposals presented at the Annual Meeting.

For Shares Held Through a Bank, Brokerage Firm or Other Nominee

If you hold your shares through a bank, brokerage firm or other nominee, you may vote your shares in any one of three ways:

In Person. If you choose to vote in person at the Annual Meeting, you must obtain a legal proxy from your bank, brokerage firm or other nominee authorizing you to vote at the Annual Meeting. You can then come to the Annual Meeting and cast your vote in person;

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Voting By Mail. If you choose to vote by mail, complete and return to your bank, brokerage firm or other nominee the voting instruction form provided to you by your bank, brokerage firm or other nominee; or

Voting By Telephone or Internet. If you choose to vote by telephone or Internet, vote in accordance with instructions set forth on the voting instruction form provided to you by your bank, brokerage firm or other nominee.

Use of Proxies

Shareholders of record receive the proxy materials, including a proxy card, from the Company, whereas shareholders who beneficially own their shares through a bank or brokerage firm in street name will receive the proxy materials, together with a voting instruction form, from the bank or broker. If you are a shareholder of record, unless you tell us on the proxy card to vote differently, we plan to vote signed and returned proxies **FOR** the nominees for director, **FOR** the approval of Ernst & Young LLP as the Company's independent registered public accountant for fiscal 2016, **FOR** the ratification of the compensation of the named executive officers, as disclosed in this proxy statement, pursuant to an advisory vote on executive compensation, and **FOR** the ESPP Amendment. We do not now know of any other matters to come before the Annual Meeting. If they do, proxy holders will vote the proxies according to their best judgment.

Shareholders who hold their shares in street name should refer to Broker Non-Votes below for information concerning the voting of their shares on any matter for which they do not provide instructions to their bank or broker, either by returning a completed, dated and signed voting instruction form in the envelope provide, or by telephone or Internet as provided elsewhere herein.

Quorum Requirement

We need a quorum of shareholders to hold a valid Annual Meeting. A quorum will be present if the holders of at least a majority of the outstanding Common Stock entitled to vote at the Annual Meeting either attend the Annual Meeting in person or are represented by proxy. Broker non-votes and votes withheld are counted as present for the purpose of establishing a quorum.

Vote Required for Action

Directors are elected if the votes cast **FOR** exceed the votes cast **AGAINST** at the Annual Meeting (with abstentions and broker non-votes not counted as votes cast either for or against such election). Proxies may not be voted for more than three directors, and shareholders may not cumulate votes in the election of directors.

The ratification of Ernst & Young LLP (EY) as our independent registered public accountants for fiscal 2016, the advisory vote on executive compensation, the amendment of the Plan, and any other actions properly presented at the Annual Meeting are approved if the votes cast in favor of the action exceed the votes cast opposing the action.

Shares represented by proxies that are properly marked **ABSTAIN** will be counted for purposes of determining the presence of a quorum at the 2016 Annual Meeting. Shares represented by proxies that abstain from voting on the ratification of EY as our independent registered public accountant for fiscal 2016, the advisory vote on executive compensation, or the amendment to the Plan, will not have any effect on the outcome of those votes.

Broker Non-Votes

A broker non-vote occurs when banks or brokerage firms holding shares on behalf of a shareholder do not receive voting instructions from the beneficial owner of the shares by a specified date before the Annual Meeting and do not have discretionary authority to vote those undirected shares on specified matters under applicable stock exchange rules. The election of directors, the advisory vote related to executive compensation, and amendment of the Plan are considered non-routine matters and bank / broker discretionary voting on these matters is prohibited. As a result, if you are a beneficial owner, hold your shares in street name, and do not give your broker or other nominee instructions on how to vote your shares with respect to the election of directors, the advisory vote on executive compensation, or the amendment of the Plan, no votes will be cast on your behalf with respect to those

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proposals. In contrast, the ratification of auditors is a discretionary matter, so your broker or nominee will be permitted to exercise discretionary authority to vote your shares with respect to the ratification of our selection of EY as our independent registered public accounting firm even if you do not give your broker or other nominee instructions on how to vote your shares with respect to that proposal. Shares with respect to which brokers do not have authority to vote may still be counted in determining whether a quorum is present.

Because the Company has a majority voting standard for the election of directors, and the other proposals will be approved if the votes cast in favor of the action exceed the votes cast opposing the action, broker non-votes will have no effect on the outcome of the vote on any of the proposals contained in this Proxy Statement.

Revoking a Proxy or Changing Your Vote

For Shares Held Directly in the Name of the Shareholder

If you hold your shares in registered form and not through a bank, brokerage firm or other nominee, you may revoke your proxy at any time before it is exercised. You can revoke a proxy by:

Submitting a later-dated proxy by mail;

Sending a written notice to the Corporate Secretary of Kirkland's. You must send any written notice of a revocation of a proxy so as to be delivered before the taking of the vote at the Annual Meeting to:
Kirkland's, Inc.

5310 Maryland Way

Brentwood, TN 37027

Attention: Carter R. Todd

Vice President, General Counsel and Corporate Secretary

; or

Attending the Annual Meeting and voting in person. Your attendance at the Annual Meeting will not in and of itself revoke your proxy. You must also vote your shares at the Annual Meeting in order to effectively revoke your previously delivered proxy.

For Shares Held Through a Bank, Brokerage Firm or Other Nominee

If you hold your shares through a bank, brokerage firm or other nominee, you may change your vote at any time by:

Submitting a later-dated voting instruction form by mail to your bank, brokerage firm or other nominee;

Submitting a later-dated telephone or Internet vote in accordance with instructions set forth on the voting instruction form provided to you by your bank, brokerage firm or other nominee; or

Attending the Annual Meeting and voting in person. Your attendance at the Annual Meeting will not in and of itself revoke your voting instructions to your bank, brokerage firm or other nominee. You must also vote your shares at the Annual Meeting in order to effectively revoke your previously delivered voting instructions. In order, however, to vote your shares at the Annual Meeting, you must obtain a legal proxy, executed in your favor, from your bank, brokerage firm or other nominee to be able to vote at the Annual Meeting.

II. THE PROPOSALS TO BE VOTED ON

Proposal 1 Election of Directors

Our Board of Directors consists of three classes of directors, each class with three directors. The term for each class is three years. Class terms expire on a rolling basis, so that one class of directors is elected each year. Currently, there are nine incumbent directors, consisting of three in Class II whose terms will expire at this Annual

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Meeting, three in Class III whose terms will expire at the 2017 Annual Meeting and three in Class I whose terms will expire at the 2018 Annual Meeting. Two of our current Class II directors, Ralph T. Parks and Murray Spain (whose information is also provided below), intend to retire as a director and will not stand for re-election, effective as of the Annual Meeting.

The nominees for Class II director this year are Susan S. Lanigan, W. Michael Madden and Charlie Pleas, III. Ms. Lanigan and Mr. Pleas are both new nominees standing for election. Information about the nominees, the incumbent directors not standing for re-election, and the Board of Directors is contained in the next section of this Proxy Statement entitled Board of Directors.

The Board of Directors expects that each of the nominees will be able and willing to serve as directors. If any nominee is not available, the proxies may be voted for another person nominated by the Board of Directors to fill the vacancy, or the size of the Board of Directors may be reduced. In the event that a director fails to receive the number of votes required for reelection to the Board, the Company's Governance and Nominating Committee will make a recommendation to the Board of Directors as to whether the Board of Directors should accept the director's resignation or take such other action as the Committee may recommend. The Board of Directors will act on the Committee's recommendation and publicly disclose its decision and the rationale behind such decision within ninety (90) days after certification of the election results.

The Board of Directors recommends a vote FOR the election of each of Susan S. Lanigan, W. Michael Madden and Charlie Pleas, III to the Board of Directors.

Proposal 2 Ratification of Independent Registered Public Accounting Firm

Our audit committee (the Audit Committee) has selected EY as our independent registered public accounting firm to perform the audit of our consolidated financial statements for the fiscal year 2016. In deciding to engage EY, our Audit Committee noted that there were no auditor independence issues raised with EY.

Our Board of Directors recommends that the shareholders ratify the selection of EY as our independent registered public accounting firm. This appointment will be submitted to our shareholders for ratification at the Annual Meeting. The submission of the appointment of EY is required neither by law nor by our bylaws. Our Board of Directors is nevertheless submitting it to our shareholders to ascertain their views. If our shareholders do not ratify the appointment, the selection of another independent registered public accounting firm will be considered by our Board of Directors. If EY shall decline to accept or become incapable of accepting its appointment, or if its appointment is otherwise discontinued, our Board of Directors will appoint another independent registered public accounting firm.

Our Audit Committee reviews audit and non-audit services performed by EY, as well as the fees charged by EY for such services. In its review of non-audit service fees, the Audit Committee considers, among other things, the possible effect of the performance of such services on the auditor's independence. Additional information concerning the Audit Committee and its activities with EY can be found in the following sections of this proxy statement: Board Committees: Audit Committee, at page 11, and Audit Committee Report at page 32. For additional information about EY see Independent Registered Public Accounting Firm on page 31 of this Proxy Statement.

The Board of Directors recommends a vote FOR the ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year 2016.

Proposal 3 Advisory Vote Related to Executive Compensation

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) enables our shareholders to vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the Securities and Exchange Commission s (SEC) rules.

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As described in detail under the heading "Executive Compensation – Compensation Discussion and Analysis" on page 18, our executive compensation programs are designed to attract, motivate, and retain our named executive officers, who are critical to our success. Under these programs, our named executive officers are rewarded for the achievement of strategic goals and the realization of increased shareholder value. Please read the "Executive Compensation – Compensation Discussion and Analysis" for additional details about our executive compensation programs, including information about the fiscal 2015 compensation of our named executive officers.

We are asking our shareholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our shareholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we will ask our shareholders to vote **FOR** the following resolution at the Annual Meeting:

RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure.

The say-on-pay vote is advisory and is therefore not binding on the Company, the Compensation Committee or our Board of Directors. Our Board of Directors and our Compensation Committee value the opinions of our shareholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider our shareholders' concerns, and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

The Board of Directors recommends that you vote **FOR this Proposal 3 to ratify the compensation of the named executive officers as disclosed in this proxy statement.**

Proposal 4 – Amendment of the Company's 2002 Employee Stock Purchase Plan to Increase the Number of Shares Available for Issuance under that Plan

On March 30, 2016, our Board of Directors unanimously adopted the ESPP Amendment, a copy of which is attached hereto as Appendix A. The purpose of the ESPP Amendment is to increase the number of shares of common stock authorized to be issued under the ESPP by 125,000 shares, effective upon adoption of the ESPP Amendment, and to increase the number of shares added to the Plan by up to 35,000 shares annually commencing January 1, 2017. The ESPP was originally adopted in 2002 and at that time there were 500,000 shares reserved for issuance under the Plan. As of the record date, there were now fewer than 15,000 shares reserved and available for issuance under the ESPP. Upon shareholder approval of the ESPP Amendment, the number of shares of common stock authorized to be issued under the ESPP will immediately increase by 125,000 shares and will increase annually thereafter each January 1 commencing on January 1, 2017 by up to an additional 35,000 shares. Except as described above, all other terms of the ESPP shall remain the same. A copy of the ESPP is attached hereto as Appendix B.

We are requesting in this Proposal 4 that our shareholders approve the ESPP Amendment. The affirmative vote of a majority of the shares entitled to vote and present in person or by proxy is required to approve the ESPP Amendment. The key features of the ESPP are outlined below. This summary, however, does not purport to be a complete description of the ESPP.

Purpose

The purpose of the ESPP is to provide our eligible employees with the opportunity to increase their stake in the success of Kirkland's by buying stock from the Company on favorable terms. Generally, participants in the ESPP will accumulate funds to purchase shares through payroll deduction and those accumulated funds will be applied quarterly to purchase shares of stock at a discount.

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Administration and Operation

The Board administers the ESPP and has the final power to construe and interpret the Plan. The Board has the power to delegate such administration and has chosen to delegate the administration of the ESPP to the Compensation Committee of the Board. Employees are eligible to participate in the ESPP if they have been employed by the Company or one of its subsidiaries for at least 12 months and work more than 20 hours per week for more than five months per calendar year. There are four quarterly stock purchase periods in each year, and shares of stock are purchased at the end of each such purchase period. The purchase price per share of stock is 85% of the fair market value per share of stock of the last trading day of the purchase period.

Stock Subject to ESPP

Subject to approval of this proposal, an aggregate of 125,000 shares plus any shares that might be remaining in the ESPP after the first quarter 2016 purchase period will be reserved for issuance under the ESPP. Pursuant to the Amendment, the number of shares of stock reserved for issuance under the ESPP will automatically increase on January 1 of each year for a period of up to ten years, beginning on January 1, 2017 and ending on (and including) January 1, 2026, by the lesser of (i) .5% of the total number of shares of our common stock outstanding on December 31 of the preceding calendar year, (ii) 35,000 shares of common stock, or (iii) such lesser number of shares of common stock as determined by the Board. The shares of common stock purchasable under the ESPP will be shares of authorized but unissued or reacquired common stock, including shares repurchased by us on the open market. If the Amendment is not approved and the total number of shares for which purchase rights are exercised exceeds the number of shares remaining in the ESPP, then the available shares will be prorated among all plan participants. In that case, any amounts not applied to the purchase of the available shares will be refunded to participating employees of the Company, and the ESPP will cease.

Federal Tax Consequences

The ESPP is intended to be an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the Code). Under such a plan, no taxable income is recognized by the participant either when the purchase right is granted at the beginning of the purchase period or when the shares are purchased at the end of each purchase period.

The Board of Directors unanimously recommends that you vote FOR the amendment of the Company's 2002 Employee Stock Purchase Plan to add additional shares to the Plan.

III. BOARD OF DIRECTORS

Nominees for Director

Class II Term Expiring in 2019

Susan S. Lanigan

Principal Occupation: Retired Executive Vice President and General Counsel of Dollar General Corporation.

Age: 53

New Nominee Standing for Election

Ms. Lanigan currently serves as the Chair of the Tennessee Education Lottery Corporation, a position to which she was appointed by the Governor of the State of Tennessee in 2014. Ms. Lanigan joined Dollar General Corporation, the nation's largest small box retailer of discount consumable basic merchandise, in 2002 as Vice President, General Counsel and Secretary, and in 2005 she was promoted to Executive Vice President. She retired from Dollar General in 2013. Prior to joining Dollar General, Ms. Lanigan served as Senior Vice President, General

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Counsel and Secretary at Zale Corporation, a specialty retailer of fine jewelry. Prior to her time at Zale, Ms. Lanigan held legal positions with Turner Broadcasting System, Inc., a media conglomerate and division of Time Warner that manages cable networks and properties, and the law firm of Troutman Sanders LLP. Ms. Lanigan is a former retail industry executive who brings to the board years of public-company management and legal experience. Her experience as General Counsel and as a senior executive officer of two different public companies in the retail industry will assist the Company with corporate governance issues as well as strategy and operational issues.

W. Michael Madden

Principal Occupation: President and Chief Executive Officer of the Company.

Age: 46

Director Since: 2015

Mr. Madden has served as the Company's President and Chief Executive Officer since February 2015. Prior to that, Mr. Madden served as Senior Vice President and Chief Financial Officer since January 2008 and Vice President and Chief Financial Officer since May 2006. Prior to his appointment as Chief Financial Officer, Mr. Madden served as Vice President of Finance from May 2005 to April 2006. From July 2000 to May 2005, he served as Director of Finance. Prior to joining Kirkland's, Mr. Madden served as Assistant Controller with Trammell Crow Company and was with PricewaterhouseCoopers LLP. At PricewaterhouseCoopers LLP, he served in positions of increasing responsibility over six years culminating as Manager-Assurance and Business Advisory Services where he worked with various clients, public and private, in the retail and consumer products industries. Mr. Madden's day-to-day leadership as President and Chief Executive Officer, as well as his many years of experience in the retail industry, provide him with deep knowledge of our operations and give him unique insights into the challenges and opportunities we face.

Charlie Pleas, III

Principal Occupation: Senior Vice President and Controller of AutoZone, Inc.

Age: 51

New Nominee Standing for Election

Mr. Pleas was elected Senior Vice President and Controller of AutoZone, Inc., a retailer of automotive parts and accessories, during 2007. Prior to that, he was Vice President and Controller since 2003. Previously, he was Vice President Accounting since 2000, and Director of General Accounting since 1996. Prior to joining AutoZone, Mr. Pleas was a Division Controller with Malone & Hyde, one of the Fleming Companies, Inc. where he served in various capacities since 1988. Mr. Pleas worked with EY prior to joining Malone & Hyde, and he received his BBA in accounting from Delta State University. Mr. Pleas is a retail industry executive who brings to the board years of financial and public-company management experience. He is also an audit committee financial expert based on his role as Controller of AutoZone and his experience preparing and evaluating the financial statements of a large publicly traded company.

Directors Continuing in Office

Class III Term Expiring in 2017

Robert E. Alderson

Principal Occupation: Private Investor.

Age: 69

Director Since: 1986

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Mr. Alderson has been a Director of Kirkland's since September 1986 and served as the Company's Chief Executive Officer from February 2006 to February 2015. He also served as Chief Executive Officer of Kirkland's from March 2001 to May 2005. He served as President of Kirkland's from April 2008 to February 2015, from February 2006 to March 2006 and from November 1997 to May 2005. He served as Chief Operating Officer of Kirkland's from November 1997 through March 2001 and as Vice President or Senior Vice President of Kirkland's since joining in 1986 through November 1997. He also served as Chief Administrative Officer of Kirkland's from 1986 to 1997. Prior to joining Kirkland's, Mr. Alderson was a senior partner at the law firm of Menzies, Rainey, Kizer & Alderson. Mr. Alderson's 28 years with Kirkland's provides the Board of Directors with significant Company knowledge and retail experience. Mr. Alderson has also served on the board of Bojangles, Inc. since April 2015.

Carl T. Kirkland

Principal Occupation: Retired Co-Founder of Kirkland's, Inc.

Age: 75

Director Since: 1966

Mr. Kirkland has served as a director of the Company since he co-founded Kirkland's in 1966, and he served as Chief Executive Officer from 1966 through March 2001 and President from 1966 through November 1997. Mr. Kirkland also served as Chairman of the Board of Directors from June 1996 to November 2004. He has over 45 years of experience in the retail industry. Mr. Kirkland also serves on the Board of Directors of Hibbett Sporting Goods, Inc. Mr. Kirkland brings to the Board of Directors a knowledge of the history and evolution of Kirkland's from its inception; his experience as a long-standing director of another retailer, Hibbett Sporting Goods, also informs his understanding of the business and its place in the context of the retail sector. Mr. Kirkland also serves on the Board of Directors of The Bank of Jackson, located in Jackson, Tennessee.

Jeffery C. Owen

Principal Occupation: Executive Vice President of Store Operations and Store Development for Dollar General Corporation.

Age: 46

Director Since: 2015

Mr. Owen rejoined Dollar General in June of 2015 as Executive Vice President of Store Operations and Store Development. Prior to his departure from Dollar General in 2014, Mr. Owen had spent over 20 years with Dollar General, the nation's largest small box retailer of discount consumable basic merchandise. At the time of his departure, he had served as the Senior Vice President, Operations from 2011 to 2014, and prior to that time he was Vice President, Operations for Dollar General from 2006 to 2011. Mr. Owen received his undergraduate degree and M.B.A. from Vanderbilt University. Mr. Owen is a retail industry executive who brings to the board years of operations and public-company management experience.

Class I Term Expiring in 2018

Steven J. Collins

Principal Occupation: Managing Director of Advent International, a private equity investment firm.

Age: 47

Director Since: 2004

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Mr. Collins has been a director of Kirkland's, Inc. since November 2004. Mr. Collins is a Managing Director of Advent International, a global private equity firm focused on international buyouts, growth and strategic restructuring. Mr. Collins joined Advent in 1995 and rejoined after graduate school in 2000. Mr. Collins served as Kirkland's Chief Financial Officer from January 1997 to February 1998 and its Treasurer from January 1998 to December 1998. Before joining Kirkland's, Mr. Collins was an Associate at Advent International from 1995 to 1997. Mr. Collins also serves on the Board of Directors of Bojangles, Charlotte Russe, lululemon athletica, and Party City Holdings and served on the board of Five Below through March 2015. Mr. Collins received a B.S. from the Wharton School of the University of Pennsylvania and an M.B.A. from Harvard Business School. Mr. Collins brings substantial retail experience to our Board of Directors (from his roles at Party City and Five Below in particular), and contributes insight into appropriate Board of Directors roles and corporate governance issues based on the directorships he has held and continues to hold.

R. Wilson Orr, III

Principal Occupation: Chairman of the Board of Directors, Managing Partner of SSM Partners, a private equity investment firm, and a principal of SSM Corporation.

Age: 53

Director Since: 1996

Mr. Orr has been Chairman of our Board of Directors since March 2006. Since 1993, Mr. Orr has been a Managing Partner of SSM Partners, a private equity investment firm. He joined SSM Partners in 1988 as a Vice President. From 1984 to 1988, Mr. Orr worked in corporate finance at Chemical Bank. Mr. Orr received a B.S. degree from Vanderbilt University. Mr. Orr brings significant experience to our Board of Directors having served and continuing to serve on numerous other boards and assisting management with a full range responsibilities including long-term strategic planning.

Miles T. Kirkland

Principal Occupation: Senior Vice President and Portfolio Manager for Truxton Trust, a private bank and wealth management services company.

Age: 44

Director Since: 2008

Mr. Kirkland is Senior Vice President and Portfolio Manager for Truxton Trust, a private bank and wealth management services company based in Nashville, TN. From 2010 until April 2013, Mr. Kirkland was a Principal with Mastrapasqua Asset Management, a private asset management firm, where he previously served as a Senior Research Analyst and Associate Portfolio Manager from 2007 to 2010. He joined Mastrapasqua Asset Management in 2000 as a Research Analyst. Before joining Mastrapasqua, he spent three years working with Kirkland's in store operations. He received a B.A. in English from The University of the South in 1994 and an M.B.A. from Vanderbilt University Owen Graduate School of Management in 2000. Mr. Kirkland is also a CFA Charterholder. Mr. Kirkland brings to the Board his experience as an employee of Kirkland's (in store operations), as well as his general business experience, which enable him to accurately assess our performance and advise on new strategies.

Incumbent Directors Not Standing for Re-Election

Murray M. Spain

Principal Occupation: Retired Co-Founder of Dollar Express, Inc.

Age: 72

Director Since: 2001

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Mr. Spain was the co-founder of Dollar Express, Inc., a chain of discount variety stores, and acted as its President and Chief Operating Officer from its inception in 1961 until May 2000, when Dollar Express merged with Dollar Tree Stores, Inc. At that time, Dollar Express was a chain of 126 retail stores in five states. Mr. Spain graduated from Temple University with a BA in accounting in 1965. Mr. Spain's extensive experience in managing a retail business and operating over one hundred stores over five states enables him to evaluate our business and identify potential opportunities for growth and improvement.

Ralph T. Parks

Principal Occupation: President of RT Parks, Inc., a retailer of New Balance® footwear and apparel.

Age: 70

Director Since: 2004

Mr. Parks served as the interim Chief Executive Officer of Heelys, Inc. from February 2008 until May 2008, but has otherwise been retired since 1999 after a 34-year career in the retail industry, including eight years as Chief Executive Officer of Footaction, USA, an athletic footwear and apparel retailer. Since 2002, he has served as President of RT Parks, Inc., a retailer of New Balance® footwear and apparel. Mr. Parks also serves on the board of directors of Hibbett Sporting Goods, Inc. Mr. Parks' experience in the retail industry both in the board room and as an executive officer contributes to the Board of Directors' ability to assess our performance and to develop appropriate oversight mechanisms and initiatives.

IV. INFORMATION ABOUT THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Board Leadership Structure

The Board of Directors of the Company is led by a Chairman of the Board and chairmen of the various committees of the Board of Directors. The Company has determined that it is appropriate for the Chairman of the Board of Directors to be an independent director, so that the same person does not fill the roles of chairman and chief executive officer. While such a dual role is permitted, the Company desires to establish a measure of board independence by appointing an independent director to serve as Chairman of the Board of Directors. If the CEO or another insider ever serves as Chairman of the Board of Directors in the future, we would anticipate that a Lead Independent Director, elected by the independent directors, would preside over executive sessions of the independent directors. In addition to preserving the independence of the Board of Directors as a whole, each of the committees of the Board of Directors is chaired by an independent director (and is comprised only of independent directors), in accordance with the applicable listing standards of The Nasdaq Stock Market (Nasdaq). The Board of Directors believes its current structure and operation, as described herein, properly safeguards the independence of the Board of Directors.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to its directors, officers and employees, including the Company's principal executive officer, principal financial officer and principal accounting officer. This Code of Business Conduct and Ethics may be found on the Company's investor website at www.kirklands.com under Investor Relations - Corporate Governance - Governance.

Board Independence

Consistent with the Nasdaq listing standards and the regulations promulgated by the SEC, a majority of the members of a listed company's board of directors must qualify as independent, as affirmatively determined by the

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Board of Directors. After review of all relevant transactions and relationships between each director, or any of his or her family members, and the Company, its senior management and its independent auditors, the Board of Directors affirmatively has determined that the following directors, constituting a majority of the Company's directors, are independent directors within the meaning of the applicable Nasdaq listing standards: Steven J. Collins, Carl T. Kirkland, R. Wilson Orr, III, Ralph T. Parks, Miles T. Kirkland, Murray M. Spain and Jeffery C. Owen. The Board of Directors has also determined that the two new nominees to the Board would be independent directors within the meaning of the applicable Nasdaq listing standards. The Company's independent directors meet in regularly scheduled executive sessions at which only independent directors are present.

Board of Directors and Committee Meetings

During fiscal 2015, the Board of Directors held six regular meetings. All directors attended at least 75% of the meetings of the Board of Directors and all committees of the Board of Directors on which they served. While the Company encourages all members of the Board of Directors to attend annual meetings of the Company's shareholders, there is no formal policy as to their attendance. All members of the Board of Directors attended the 2015 annual meeting of shareholders, except for Messrs. Collins and Spain.

The Board of Directors has three standing committees: an Audit Committee, a Compensation Committee and a Governance and Nominating Committee.

Audit Committee

The Board of Directors has adopted a written charter that outlines the duties of the Audit Committee. A copy of this charter is available on the Company's investor website at www.kirklands.com under Investor and Media Relations Corporate Governance - Committees. The principal duties of the Audit Committee, among other things, are to:

review and reassess the adequacy of the Audit Committee and its charter not less than annually and recommend any proposed changes to the Board of Directors for consideration and approval;

review with management and the Company's independent public accountants the Company's audited financial statements and related footnotes, and the clarity of the disclosures in the financial statements;

meet periodically with management and the Company's independent public accountants to review the Company's major financial risk exposures and the steps taken to monitor and control such exposures;

review and discuss quarterly reports from the Company's independent public accountants regarding all critical accounting policies and practices to be used;

obtain from the Company's independent public accountants their recommendation regarding internal controls and other matters relating to the accounting procedures and the books and records of the Company and the correction of controls deemed to be deficient;

pre-approve all auditing services and permitted non-audit services (including the fees for such services and terms thereof) to be performed for the Company by its independent public accountants;

adopt procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

establish, review and update policies for approving related party transactions; and monitor implementation of such policies; and

review and approve any transactions between the Company and related parties.

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Members: Mr. Parks (Chairman), Mr. Owen, Mr. Orr and Mr. Spain. All of the members of the Audit Committee are independent as defined by the applicable rules and regulations of Nasdaq and the SEC.

The Board of Directors has determined that the Audit Committee does not have an audit committee financial expert as that term is defined in the SEC's rules and regulations. However, the Board of Directors believes that each of the members of the Audit Committee has demonstrated that he is able to read and understand fundamental financial statements, including the Company's balance sheets, statements of operations and statements of cash flows. In addition, the Board believes that Board nominee Charlie Pleas, III, would qualify as an audit committee financial expert and if he is elected to the Board at the Annual Meeting, it is expected that he would be appointed to the Audit Committee.

Number of Meetings in fiscal 2015: 10

Compensation Committee

The Board of Directors has adopted a written charter that outlines the duties of the Compensation Committee. A copy of this charter is available on the Company's investor website at www.kirklands.com under Investor and Media Relations Corporate Governance - Committees. Under the terms of its charter, the Compensation Committee is directly responsible for establishing compensation policies for our executive officers. The principal duties of the Compensation Committee, among other things, are to:

review and recommend to the Board of Directors the annual salary, bonus, stock compensation and other benefits, direct and indirect, of the Company's executive officers, including the Chief Executive Officer and Chief Financial Officer;

review and provide recommendations to the Company regarding compensation and bonus levels of other members of senior management;

review and recommend to the Board of Directors new executive compensation programs;

grant awards under our equity incentive plans and establish the terms thereof;

review and recommend to the Board of Directors the terms of any employment agreement executed by the Company with an executive officer of the Company;

review and recommend to the Board of Directors the appropriate structure and amount of compensation for the Directors;

oversee all matters relating to the outcome of shareholder advisory votes on executive compensation, including recommending the frequency of such advisory votes to the Board of Directors;

oversee the appropriate Committee response to a say-on-pay vote that does not achieve the required vote and, based on such result, determine if any compensation arrangement subject to such advisory voting should be modified;

review and approve material changes in the Company's employee benefit plans; and

where applicable, employ a compensation consultant that reports directly to the committee to assist in the evaluation of our executive compensation programs.

Members: Mr. Collins (Chairman), Mr. Owen, Mr. M. Kirkland and Mr. Orr. All of the members of the Compensation Committee are independent as defined by the applicable rules and regulations of Nasdaq and the SEC.

Number of Meetings in fiscal 2015: 7

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Governance and Nominating Committee

The Board of Directors has adopted a written charter that outlines the duties of the Governance and Nominating Committee. A copy of this charter is available on the Company's investor website at www.kirklands.com under Investor and Media Relations Corporate Governance - Committees. The principal duties of the Governance and Nominating Committee, among other things, are to:

Review and make recommendations on the range of skills and expertise which should be represented on the Board of Directors, and the eligibility criteria for individual Board of Directors and committee membership;

identify and recommend potential candidates for election or re-election to the Board of Directors;

implement a policy and procedures with regard to the consideration of any director candidates recommended by security holders; and

review and recommend to the Board of Directors the appropriate structure of Board of Directors committees, committee assignments and the position of chairman of each committee.

Members: Mr. Orr (Chairman), Mr. Collins, and Mr. M. Kirkland. All of the members of the Governance and Nominating Committee are independent as defined by the applicable rules and regulations of Nasdaq and the SEC.

Number of Meetings in fiscal 2015: 5

Director Nomination Process

The Governance and Nominating Committee will consider director candidates who have relevant business experience, are accomplished in their respective fields, and who possess the skills and expertise to make a significant contribution to the Board of Directors, the Company and its shareholders. The Governance and Nominating Committee will consider nominees for election to the Board of Directors that are recommended by shareholders, provided that a complete description of the nominees' qualifications, experience and background, together with a statement signed by each nominee in which he or she consents to act as such, accompany the recommendations. Such recommendations should be submitted in compliance with the procedures outlined on page 34 under the heading Shareholder Proposals for the 2017 Annual Meeting.

While the Governance and Nominating Committee does not have a specific diversity policy relating to the composition of the Board of Directors, the Board of Directors does value diversity. The Board of Directors considers a number of diversity factors in evaluating director candidates including, without limitation, professional experience, education, race, gender and national origin, but does not assign any particular weight or priority to any particular factors. Instead, the Board of Directors considers each individual candidate in the context of the current perceived needs of the Board of Directors as a whole.

In identifying prospective director candidates, the Governance and Nominating Committee may seek referrals from other members of the Board of Directors, management, shareholders and other sources. The Governance and

Nominating Committee also may, but need not, retain a search firm in order to assist it in identifying candidates to serve as directors of the Company. The Governance and Nominating Committee utilizes the same criteria for evaluating candidates regardless of the source of the referral. When considering director candidates, the Governance and Nominating Committee seeks individuals with backgrounds and qualities that, when combined with those of our incumbent directors, provide a blend of skills and experience to further enhance the Board of Director s effectiveness.

In connection with its annual recommendation of a slate of nominees, the Governance and Nominating Committee may also assess the contributions of those directors recommended for re-election in the context of the Board of Directors evaluation process and other perceived needs of the Board of Directors.

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When considering whether the directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable our Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, our Board of Directors focuses primarily on the information discussed in each director's biographical information set forth on pages 6 to 10 of this Proxy Statement. Each of the Company's directors possesses high ethical standards, acts with integrity and exercises careful, mature judgment. Each is committed to employing their skills and abilities to aid the long-term interests of the stakeholders of the Company. In addition, our directors are knowledgeable and experienced in one or more business endeavors, which further qualify them for service as members of the Board of Directors.

In 2016, our Board Chairman recommended both Susan S. Lanigan and Charlie Pleas, III, as potential director nominees. In each case, the Governance and Nominating Committee then interviewed these prospective nominees, reviewed their qualifications and expertise and ultimately recommended to the full Board of Directors that each of these candidates become a nominee for director.

New directors participate in an orientation program that includes discussions with senior management, a store visit, and their review of background materials on our strategic plan, organization and financial statements. We encourage each director to participate in continuing educational programs that are important to maintaining a director's level of expertise to perform his or her responsibilities as a Board member.

Board of Directors Role in Risk Oversight

The Board of Directors takes an active role in risk oversight. The Board of Directors exercises its risk oversight function through the full Board of Directors and each of its committees. The Audit Committee of the Board of Directors takes an active risk oversight role by meeting with the Company's senior management team on a regular basis and reviewing and approving key risk policies and risk tolerances. The Audit Committee is responsible for ensuring that the Company has in place a process for identifying, prioritizing, managing, and monitoring its critical risks. Furthermore, the Board of Directors, with input from the Audit Committee, regularly evaluates our management infrastructure, including personnel competencies and technologies and communications, to ensure that key risks are being properly evaluated and managed. Finally, the Compensation Committee of the Board of Directors reviews any risks associated with the Company's compensation practices. In the Compensation Committee's view, our compensation policies do not encourage risk-taking, in part because the compensation packages are weighted towards long-term vesting equity as opposed to cash or immediately vested equity awards.

Board of Directors Compensation

Retainer and Fees for Employee Directors

Any director who is also one of our employees does not receive any additional compensation for his or her service as a director of Kirkland's.

Retainer and Fees for Non-employee Directors

The Compensation Committee has approved the following compensation for non-employee directors for their service:

Cash Compensation. Each non-employee director is paid an annual retainer of \$30,000, as well as \$1,000 for each board meeting attended in person. In addition to the foregoing retainer and meeting fees, our non-employee Chairman of the Board of Directors receives an additional annual retainer of \$30,000.

Equity Compensation. On the date of each Annual Meeting of Shareholders, each person serving as a non-employee director at the conclusion of the meeting receives a grant of 4,000 restricted stock units (RSUs), each representing the right to receive one share of our common stock upon vesting. The RSUs vest one-year from the date of grant (or on a pro-rata basis relative to the termination date if the director's service to the Company terminates prior to the one-year anniversary of the grant date). In the event of a change in control of the Company (a Change in Control), the Company reserves the right to substitute cash or other substitute consideration for the right to receive shares hereunder, provided that at the time of that Change in Control, such substitute consideration has a value (as reasonably determined by the Board of Directors) equal to the then current fair market value of the shares subject hereto and provided further that such substitute consideration vests and becomes payable on the same basis as provided herein with respect to these RSUs and the shares subject hereto (or on such accelerated basis as may then be determined by the Board of Directors, in its discretion).

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Board of Directors Committees. Each non-employee director who is a member of our Audit Committee is paid an annual retainer of \$10,000, and the Chairman of the Audit Committee receives an annual retainer of \$20,000. Each non-employee director who is a member of our Compensation Committee receives an annual retainer of \$7,500, and the Chairman of the Compensation Committee is paid an annual retainer of \$15,000. Each non-employee director who is a member of the Governance and Nominating Committee is paid an annual retainer of \$7,500, and the Chairman of the Governance and Nominating Committee receives an annual retainer of \$15,000.

Director Compensation Table

The following table provides information about all compensation earned in fiscal 2015 by the individuals who served on our Board of Directors:

Name	Fees Earned or Paid in		Total
	Cash	Stock	
	(\$)	Awards	(\$)
Murray M. Spain	46,333	102,080	148,413
Ralph T. Parks	51,334	102,080	153,414
Steven J. Collins	53,833	102,080	155,913
R. Wilson Orr, III	95,667	102,080	197,747
Jeffery C. Owen	44,667	102,080	146,747
Miles T. Kirkland	47,334	102,080	149,414
Robert E. Alderson	34,000	102,080	136,080
Carl T. Kirkland	34,000	102,080	136,080

- (1) As a part of our Board of Directors compensation package, each non-employee member of the Board of Directors was granted 4,000 RSUs on June 4, 2015. The RSUs will vest one-year from the date of grant (or will vest on a pro-rata basis relative to the termination date if the director's service to the Company terminates prior to the one-year anniversary of the grant date). The amounts in the column titled "Stock Awards" reflect the grant date fair values of awards made during fiscal 2015, as computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation - Stock Compensation (FASB ASC Topic 718).

The following table shows, as of January 30, 2016, the number of all outstanding stock options and RSUs held by non-employee directors:

Name	Number of Options	Number of RSUs
Steven J. Collins	5,000	4,000
Carl T. Kirkland	20,000	4,000
Miles T. Kirkland	7,500	4,000
Jeffery C. Owen		4,000
Robert E. Alderson		4,000
R. Wilson Orr, III		4,000
Ralph T. Parks		4,000

Murray M. Spain	20,000	4,000
Shareholder Communications		

Pursuant to the policy of the Board of Directors, all communications directed to the Board of Directors will be delivered to the Board of Directors. Shareholders may contact the Board of Directors by writing to them c/o Kirkland's, Inc., 5310 Maryland Way, Brentwood, Tennessee, 37027, Attention: Carter R. Todd.

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The following table shows, as of April 15, 2016 (except as set forth below), the number of shares of Common Stock beneficially owned by:

each beneficial owner of more than five percent of our outstanding Common Stock;

each of our directors and nominees for director;

each of our executive officers listed in the Summary Compensation Table on page 23 below (collectively, the NEOs or named executive officers); and

all of our directors and executive officers as a group. Unless otherwise noted, the address for each person listed is our principal office.

Name	Shares Beneficially Owned	
	Number	Percent
Robert E. Alderson, Director (1)	55,882	*
W. Michael Madden, NEO and Director (2)	305,867	1.9%
Michelle R. Gaul, NEO (3)	168,118	1.0%
Adam C. Holland, NEO (4)	90,345	*
Steven J. Collins, Director (5)	29,790	*
Carl T. Kirkland, Director (6)	879,044	5.6%
Miles T. Kirkland, Director (7)	80,883	*
R. Wilson Orr, III, Director (8)	27,320	*
Jeffery C. Owen, Director	4,000	*
Ralph T. Parks, Director (9)	24,144	*
Murray M. Spain, Director (10)	44,144	*
Susan S. Lanigan, Director Nominee		*
Charlie Pleas, III, Director Nominee		*
Nokomis Capital, L.L.C. (11) 2305 Cedar Springs Rd., Suite 420 Dallas, TX 75201	1,651,313	10.5%
Paradigm Capital Management, Inc.(12) Nine Elk Street Albany, NY 12207	1,128,700	7.2%
Blackrock, Inc. (13)	1,860,989	11.8%

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40 East 52nd Street
New York, NY 10022

Dimensional Fund Advisors LP (14) Building One, 6300 Bee Cave Road Austin, TX 78746	855,327	5.4%
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All executive officers and directors as a group (11 persons)(15)	1,713,537	10.5%
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* Less than one percent of class

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- (1) Includes 4,000 RSUs held by Mr. Alderson that will vest in June 2016.
- (2) Includes (i) options to purchase 207,964 shares of Common Stock held by Mr. Madden, (ii) 10,626 options that will vest by June 2016, and (iii) 14,504 RSUs that will vest by June 2016.
- (3) Includes (i) options to purchase 116,715 shares of Common Stock held by Ms. Graul, (ii) 7,659 options that will vest by June 2016, and (iii) 9,324 RSUs that will vest by June 2016.
- (4) Includes (i) options to purchase 46,595 shares of Common Stock held by Mr. Holland, (ii) 5,000 options that will vest by June 2016, and (iii) 5,180 RSUs that will vest by June 2016.
- (5) Includes (i) options to purchase 5,000 shares of Common Stock held by Mr. Collins and (ii) 4,000 RSUs that will vest in June 2016.
- (6) Includes (i) options to purchase 20,000 shares of Common Stock held by Mr. Kirkland and (ii) 4,000 RSUs that will vest in June 2016.
- (7) Includes (i) options to purchase 7,500 shares of Common Stock held by Mr. Kirkland and (ii) 4,000 RSUs that will vest in June 2016.
- (8) Includes 4,000 RSUs held by Mr. Orr that will vest in June 2016.
- (9) Includes 4,000 RSUs held by Mr. Parks that will vest in June 2016.
- (10) Includes (i) options to purchase 20,000 shares of Common Stock held by Mr. Spain, and (ii) 4,000 RSUs that will vest in June 2016.
- (11) Obtained from Form SC 13G/A filed on February 11, 2016.
- (12) Obtained from Form SC 13G/A filed on February 11, 2016.
- (13) Obtained from Form SC 13G/A filed on January 8, 2016.
- (14) Obtained from Form SC 13G filed on February 9, 2016.
- (15) Includes (i) options to purchase 447,059 shares of Common Stock, and (ii) 61,008 RSUs that will vest in June 2016.

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VI. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis (CD&A)

Overview

The Compensation Committee of the Board of Directors has developed and implemented compensation policies, plans and programs that seek to enhance our profitability, and thus shareholder value, by aligning the financial interests of our senior management with those of our shareholders. Our compensation arrangements are designed to attract and retain corporate officers and other key employees and to motivate them to perform to the full extent of their abilities, in the best long-term interests of the shareholders.

During fiscal 2015, the Compensation Committee held 7 meetings and took the following significant actions:

discussed, approved and recommended to the Board of Directors the base salary and bonus packages of our named executive officers;

established bonus targets and payout levels for our named executive officers for fiscal 2015; and

approved equity grants totaling 47,500 options and 19,000 RSUs to NEOs; and also approved equity grants totaling 140,000 options and 56,000 RSUs to other members of management.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee is comprised entirely of the following independent directors: Steven J. Collins (chairman), Miles Kirkland, Jeffery C. Owen and R. Wilson Orr, III. Mr. Collins previously served as the Company's Chief Financial Officer from 1997 to 1998. Except as described in the preceding sentence, no member of our current Compensation Committee is or has been one of our officers or employees or has had any relationship requiring disclosure under the SEC rules. In addition, during fiscal 2015, none of our executive officers served as any of the following:

a member of the compensation committee (or other board committee performing similar functions, or, in the absence of any such committee, the entire board of directors) of another corporation, one of whose executive officers served on the Compensation Committee;

a director of another corporation, one of whose executive officers served on the Compensation Committee; or

a member of the compensation committee (or other board committee performing similar functions, or, in the absence of any such committee, the entire board of directors) of another corporation, one of whose executive officers served as one of our directors.

Limited Reliance on Outside Advisors

The Compensation Committee has sought input from compensation consultants in the past and may do so again in the future, but the advice of such consultants has never been central to our executive compensation process or philosophy. Rather, our executive compensation process is driven primarily by the experience and judgment of the Compensation Committee's members. When applying that judgment, individual members of the Compensation Committee may from time to time review the public filings of other companies, but the Compensation Committee has not identified a specific compensation peer group or otherwise engaged in formal benchmarking.

Consideration of Results of Shareholder Advisory Votes on Executive Compensation

At our 2015 Annual Meeting of Shareholders, we conducted a Say-On-Pay shareholder advisory vote, as required by the Dodd-Frank Act. The Compensation Committee appreciates that over 95% of the shares voting approved the executive compensation discussed and disclosed in the Compensation Discussion and Analysis, the compensation tables, and the narrative executive compensation disclosure contained in the 2015 Proxy Statement.

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Our Compensation Committee interprets the results of this vote as an endorsement of existing programs and therefore we have not made material changes to our approach to executive officer compensation. This year we are again providing shareholders with an opportunity to express their views on this topic in another Say-On-Pay shareholder advisory vote. For more information, please see Proposal No. 3 Advisory Vote Related to Executive Compensation on page 4.

At the annual meeting of shareholders on June 1, 2011, our shareholders expressed a preference that advisory votes on executive compensation occur on an annual basis. In accordance with the results of this vote, the Board of Directors determined to implement an annual advisory vote on executive compensation until the next required vote on the frequency of shareholder votes on the compensation of executives, which is scheduled to occur at the 2017 annual meeting.

Role of Executives in Establishing Compensation

The Compensation Committee approves and recommends to the Board of Directors all compensation and equity awards to three individuals who were our named executive officers in 2015: W. Michael Madden, our President and Chief Executive Officer; Michelle R. Graul, our Executive Vice President of Stores and Merchandising; and Adam C. Holland, our Chief Financial Officer. The Compensation Committee reviews the performance of the named executive officers through internal committee discussions and discussions with the executives, and determines the appropriate level of compensation on an annual basis.

Mr. Madden regularly attends portions of the Compensation Committee meetings and provides assistance in gathering data and information designed to support the decision-making process of the Compensation Committee. However, he is excused by the Compensation Committee from such meetings when decisions concerning executive compensation are made. Additionally, the Compensation Committee holds separate meetings outside the presence of management, at which executive compensation decisions are made.

Compensation Philosophy

The key objective of our compensation programs is to attract and retain highly qualified key executives. Once executives have joined the company, our compensation programs must provide the appropriate level of incentives in the form of cash and equity to maintain a high level of competitiveness and thereby retain key managers. We offer our executives a combination of cash bonus incentives, equity-based compensation in the form of stock options and RSUs, and the opportunity to participate in an employee stock purchase plan. We believe these incentive programs align with our overall goal of maximizing our long-term financial results and shareholder value.

Elements of Compensation

Executive pay is structured to consist of the following components:

base salary;

cash bonuses; and

equity awards.

The Compensation Committee believes that a significant portion of total compensation for our executives should be allocated to equity incentives that align pay with shareholder value. In addition, cash bonuses are available to reward executives for achieving company performance goals and individual goals that contribute to increasing the value of the company.

Base Salary

We provide our named executive officers with base salaries to compensate them for services rendered during the year. The Compensation Committee believes that competitive salaries must be paid in order to attract and retain high-quality executives. The Compensation Committee annually reviews the base salary for executive officers and makes adjustments to individual base salary rates when necessary or otherwise appropriate.

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Among other things, individual base salary adjustments take into account individual performance contributions for the year, as well as sustained performance contributions over a number of years, significant changes in responsibilities, if any, and cost of living adjustments. The assessment of individual performance is subjective and is not intended to correlate to specific corporate performance measures. The Compensation Committee's decisions regarding fiscal 2015 and fiscal 2016 salary increases are reflected below:

Executive Officer	Fiscal 2014 Base Salary Rate	Fiscal 2015 Base Salary Rate	Fiscal 2016 Base Salary Rate
W. Michael Madden President & Chief Executive Officer	\$ 370,000	\$ 450,000(1)	\$ 465,000(4)
Michelle R. Graul Executive Vice President of Stores and Merchandising	\$ 320,000	\$ 350,000(2)	\$ 360,000(4)
Adam C. Holland Chief Financial Officer	\$ 200,000	\$ 250,000(3)	\$ 260,000(4)

- (1) Mr. Madden was appointed Chief Executive Officer effective February 8, 2015, and the amount shown above for fiscal 2015 reflects his base salary following that promotion.
- (2) Ms. Graul was appointed Executive Vice President of Stores and Merchandising effective August 21, 2014, and the amount shown above for fiscal 2014 reflects her base salary following that promotion.
- (3) Mr. Holland was appointed Chief Accounting Officer on August 21, 2014 and appointed Chief Financial Officer effective February 8, 2015. The amounts shown above for fiscal 2014 and fiscal 2015 reflect his base salary rate following each promotion.
- (4) The amounts shown above reflect each named executive officer's base salary rate following merit based increases as determined by the Compensation Committee in its discretion.

Bonus and Non-Equity Incentive Plan Compensation

Our cash bonus program compensation is provided under the Company's Amended and Restated 2002 Equity Incentive Plan and has been designed to provide a short-term incentive to our executives based upon predetermined performance goals for the company and each individual executive. The Compensation Committee determines the amount of the target bonus annually for each executive expressed as a percentage of base salary.

For fiscal 2015, the target bonus for the named executive officers were: 100% of base salary for Mr. Madden; 75% of base salary for Ms. Graul; and 60% of base salary for Mr. Holland. Bonuses under this program for Mr. Madden, Ms. Graul, and Mr. Holland were based entirely on Company performance goals.

Company performance is measured based solely upon the achievement of a specified level of earnings before adjustments for interest and taxes (EBIT) as determined through our annual budgeting process. The annual budget is approved by the Board of Directors at the beginning of the fiscal year. The reliance on EBIT is driven by the Compensation Committee's belief in using a metric that is more closely aligned to bottom line earnings and provides a measure of asset productivity by including depreciation and amortization in the measurement of performance.

The Company performance goal is structured such that 100% payout of the applicable target bonus is attained upon achieving 100% of the Company EBIT goal, with the threshold bonus (50% of target payout) attained upon achievement of 75% of the EBIT goal, maximum bonus (150% of target payout) attained upon achievement of 150%

of the EBIT goal and linear interpolation used to determine payouts between these levels of EBIT performance.

Calculation of the performance bonus earned by each executive was based on the Company's final audited financial statements. The Compensation Committee reserves the right to adjust the Company performance target for extraordinary and non-recurring events after it has been established; however, it has not done so during the last eight fiscal years. The Compensation Committee may also award discretionary bonuses from time to time to recognize significant achievements and service to the Company.

As discussed above, the non-equity incentive plan compensation of our named executive officers during fiscal 2015 was based entirely on the achievement of Company financial performance goals, specifically certain levels of EBIT as determined by the Compensation Committee for purposes of our cash bonus program. The Company's EBIT target for fiscal 2015 was \$37,374,000. The actual EBIT achieved by the Company in fiscal 2015, as determined prior to bonus payments under the cash bonus program, was \$26,200,000 (which was 70.1% of the target

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EBIT amount). Under the terms of the Company's fiscal 2015 non-equity incentive plan, bonuses are not paid to plan participants unless at least 75% of the EBIT target is achieved. Because the minimum EBIT target for fiscal 2015 was not achieved, the Compensation Committee did not award bonuses to the named executive officers (or any other Company employees) for fiscal 2015.

Equity Based Incentives

Equity awards are generally made to named executive officers upon hire. Thereafter, awards are generally made annually, at the discretion of the Compensation Committee, as part of the Compensation Committee's annual compensation evaluation process. Equity awards may also be made in special circumstances (for example, to recognize a promotion or achieve a particular retention objective), but these situations are rare. There were no such special circumstances grants in fiscal 2015. The exercise price of each stock option award is based on the closing price of our common stock on the date of the grant (if not a business day, the immediately preceding business day). For newly hired employees receiving stock options, the grant of such award occurs on the later of the first day of employment or upon Compensation Committee approval, with the exercise price being based upon the closing price of our common stock on such date.

The Compensation Committee, in its discretion, evaluates potential equity awards primarily based on the number of shares to be allocated in relation to the number of shares outstanding, with additional consideration given to the value of the award in relation to total compensation. The Compensation Committee continually evaluates the type of equity award that is appropriate at the given time in response to changing business conditions with a goal of providing the type of equity award most appropriate to provide the right balance between retention and incentive to build long-term shareholder value. Equity awards have vesting requirements and terms that are similar among the recipients of the awards, providing incentives for employees to stay with the Company and work together to achieve common goals. Stock option awards typically provide for three-year or four-year vesting, with one-third or one-fourth vesting on the first anniversary of the grant date, and the remainder vesting over the succeeding eight quarters or 12 quarters. Beginning with option grants to employees in fiscal 2010, the vesting period was increased from three years to four years in order to further encourage retention of executive officers and to slow recognition of the expense associated with such awards for income statement purposes. Restricted stock unit awards generally provide for three-year cliff vesting.

On June 4, 2015, in connection with the Compensation Committee's annual compensation evaluation process, the Compensation Committee made the following annual equity awards to named executive officers: (a) Mr. Madden was granted stock options with respect to 20,000 shares and 8,000 RSUs; (b) Ms. Graul was granted stock options with respect to 15,000 shares and 6,000 RSUs; and (c) Mr. Holland was granted stock options with respect to 12,500 shares and 5,000 RSUs. The size of these equity awards was determined by the Compensation Committee after a review of fiscal 2014 performance (and, with respect to Ms. Graul and Mr. Holland, after consultation with Mr. Madden regarding each executive's performance in fiscal 2014) and taking into consideration the grantees' other compensation, the value of our shares on the date of grant and the Compensation Committee's subjective judgment regarding the size of award necessary to strongly encourage both the retention of the grantees and their continued efforts on our behalf while managing the dilutive impact of the awards.

Perquisites

We do not provide significant perquisites or personal benefits to our executive officers that are not readily available to other employees.

Severance Benefits

The specific terms of our severance arrangements are discussed below under the heading Employment Arrangements and Post-Employment Compensation and Benefits. The Compensation Committee has noted the prevalence of severance arrangements among our peer companies and believes that such arrangements, when properly tailored, are appropriate and necessary. The Compensation Committee also believes that reasonable severance benefits (i) should be established with reference to an executive's position and current cash compensation opportunities, and (ii) should be conditioned upon execution of a release of claims against the employer and its

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affiliates. Accordingly, the Compensation Committee has approved modest severance benefits for both Mr. Madden and Ms. Graul pursuant to which severance is payable upon a termination without cause or a resignation for good reason, subject in each case to Mr. Madden or Ms. Graul executing a release of claims in favor of the Company. The severance benefits for Mr. Madden and Ms. Graul remained consistent with those benefits provided in prior years.

Tax Implications - Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code limits our ability to deduct for tax purposes compensation in excess of \$1,000,000 that is paid to our principal executive officer or any one of our three highest paid executive officers, other than our principal executive officer or principal financial officer, who are employed by us on the last day of our taxable year, unless, in general, the compensation is paid pursuant to a plan that has been approved by our shareholders and is performance-related and non-discretionary. The Compensation Committee will review and consider the deductibility of executive compensation under Section 162(m) and may authorize certain payments in excess of the \$1,000,000 limitation. The Compensation Committee believes that it needs to balance the benefits of designing awards that are tax-deductible with the need to design awards that attract, retain and reward executives responsible for our success. During the 2013 Annual Meeting of Shareholders, we obtained shareholder approval of the Company's 2002 Equity Incentive Plan, as amended and restated. Among the changes reflected in that plan restatement are changes intended to provide us with greater flexibility in structuring compensation to be exempt from the limits of Section 162(m) (including the ability to grant our annual cash performance bonuses under the 2002 Equity Incentive Plan, as amended and restated).

Stock Ownership Guidelines

We do not have a formal policy in place stipulating levels of share ownership for executives. The Board of Directors and the Compensation Committee encourage employee stock ownership through the granting of equity compensation and through the Company's Employee Stock Purchase Plan. Our Chief Executive Officer, Mr. Madden, has a material ownership position in the Company. The Board of Directors and the Compensation Committee are currently working on stock ownership guidelines for executive officers and directors and expect to have that policy adopted and in place prior to the end of 2016.

Compensation Risk Analysis

Our Compensation Committee is keenly aware that compensation arrangements, if not properly structured, may encourage inappropriate risk-taking. In designing our compensation programs, the Compensation Committee seeks to mitigate such risk by (i) providing a meaningful portion of total compensation in the form of equity incentives that vest over multiple years, and (ii) capping annual cash bonuses for named executive officers at 150%, 112.5%, and 90% of base salary for Mr. Madden, Ms. Graul, and Mr. Holland, respectively. Each of these elements is intended to encourage an appropriately long-term focus. Moreover, while we have not implemented a stock ownership guideline for our management team, we note that each of our named executive officers, including Mr. Madden, our Chief Executive Officer, maintains a meaningful direct stock ownership position, which we believe provides a significant incentive for our team to ensure that their actions are focused on the creation of sustainable shareholder value and the avoidance of excessive risk.

Compensation Committee Report

We, the members of the Compensation Committee, have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy

Statement.

The Compensation Committee

Steven J. Collins, *Chairman*

Miles T. Kirkland

Jeffery C. Owen

R. Wilson Orr, III

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The following table provides information about all compensation earned in fiscal 2015 by the individuals who served as Chief Executive Officer, Executive Vice President of Store Operations and Merchandising and Chief Financial Officer. The Company did not have any other named executive officers during fiscal 2015.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(2)	Option Awards (\$)(2)	Non-Equity	All	Total (\$)
						Incentive Plan Compensation (\$)	Other Compensation (3) (\$)	
W. Michael Madden, President and Chief Executive Officer	2015	450,000		204,160	241,200		10,400	905,760
	2014	364,230	2,220	184,600	242,000	275,280	19,555	1,087,885
	2013	345,000		221,060	332,850	196,909	15,147	1,110,966
Michelle R. Graul Executive Vice President of Stores and Merchandising	2015	350,000		153,120	180,900		10,400	694,420
	2014	315,385	1,536	129,220	169,400	190,464	19,115	825,120
	2013	300,000		142,110	213,975	136,980	13,722	806,787
Adam C. Holland Vice President and Chief Financial Officer	2015	250,000		127,600	150,750		4,149	532,499
	2014	197,692	640	55,380	72,600	79,360	13,224	418,896

- (1) Our fiscal year is comprised of the 52 or 53-week period ending on the Saturday closest to January 31 of each year. Accordingly, fiscal 2015 represented 52 weeks ending on January 30, 2016.
- (2) These amounts represent the aggregate grant date fair value of equity awards granted in the specified fiscal year as calculated pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation – Stock Compensation. For additional information about the valuation assumptions with respect to equity awards, refer to note 7 of the financial statements of Kirkland's, Inc. in its Form 10-K for the year ended January 30, 2016, as filed with the SEC on April 8, 2016.
- (3) Other compensation consists of company benefits and other perquisites. The All Other Compensation table below further details these items.

All Other Compensation

The following table provides additional detail for those items listed as All Other Compensation in the Summary Compensation Table for fiscal 2015:

Description	Mr. Madden	Ms. Graul	Mr. Holland
401(k) Employer Matching Contribution(1)	\$ 2,749	\$ 2,749	\$ 2,749
	\$ 6,251	\$ 6,251	

Non-Qualified Deferred Compensation Plan

Employer Matching Contribution(2)

Group Life Insurance(3)	\$ 63	\$ 63	\$ 63
Disability Insurance(4)	\$ 1,337	\$ 1,337	\$ 1,337
Total	\$ 10,400	\$ 10,400	\$ 4,149

- (1) For fiscal 2015, the Company made a discretionary matching contribution of 50% of the first 6% of compensation for all eligible employees, including executives, subject to IRS limitations.
- (2) This amount represents the difference between the matching contribution actually made to our 401(k) plan and the matching contribution that would have been made to our 401(k) plan, but for certain limitations applicable to qualified plans under the Internal Revenue Code. This amount was contributed to our Non-Qualified Deferred Compensation Plan.

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- (3) We provide a certain amount of life insurance coverage for all employees covered by our health insurance plan. Additional coverage is provided to a certain level of employees, including executives. The amount disclosed represents the amount of premiums paid for this additional level of coverage.
- (4) We provide a certain amount of short-term and long-term disability insurance coverage for all employees. Additional coverage is provided to a certain level of employees, including executives. The amount disclosed represents the amount of premiums paid for this additional level of coverage.

Grants of Plan-Based Awards

The following table sets forth information regarding grants of plan based awards to each of our named executive officers during our fiscal year ended January 30, 2016.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or Units (#) (2)	All Other Option Awards: Number of Shares Underlying Options (#) (3)	Exercise Price of Option Awards (\$ / Sh)	Grant Date Fair Value of Stock Awards and Options (4)
		Threshold (\$)	Target (\$)	Maximum (\$)				
W. Michael Madden	4/21/2015	225,000	450,000	675,000				
	6/4/2015					20,000	25.52	
	6/4/2015				8,000	&n	\$ 241,200	