

KIRKLAND'S, INC  
Form DEF 14A  
May 01, 2012  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**SCHEDULE 14A INFORMATION**

**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)

**NOT APPLICABLE**

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

b No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

**Robert E. Alderson**

*President and Chief Executive Officer*

April 30, 2012

Dear Shareholder:

It is my pleasure to invite you to attend our Annual Meeting of Shareholders. The meeting will be held on May 30, 2012 at 9:00 a.m. Central Time at The Hutton Hotel, 1808 West End Avenue, Nashville, Tennessee. The Notice of Annual Meeting and Proxy Statement accompanying this letter describes the business to be conducted at the meeting.

If you plan to attend the meeting and you hold your shares in registered form and not through a bank, brokerage firm or other nominee, please mark the appropriate box on your proxy card. If you plan to attend and your shares are held by a bank, brokerage firm or other nominee, please send written notification to our Investor Relations Department, Kirkland's, Inc., 2501 McGavock Pike, Suite 1000, Nashville, Tennessee, 37214, Attention: W. Michael Madden, and enclose evidence of your ownership (such as a letter from the bank, brokerage firm or other nominee confirming your ownership or a bank or brokerage firm account statement). The names of all those indicating they plan to attend will be placed on an admission list held at the registration desk at the entrance to the meeting.

It is important that your shares be represented at the meeting, regardless of the number you may hold. 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.

I look forward to seeing you on May 30.

Sincerely,

Robert E. Alderson

**Table of Contents**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**May 30, 2012**

**9:00 a.m. Central Daylight Time**

**The Hutton Hotel**

**1808 West End Avenue**

**Nashville, Tennessee**

April 30, 2012

Dear Shareholder:

You are invited to the Annual Meeting of Shareholders 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 directors, Steven J. Collins, R. Wilson Orr, III and Miles T. Kirkland, 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; 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.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 30, 2012.**

THE NOTICE AND PROXY STATEMENT AND THE ANNUAL REPORT TO SHAREHOLDERS ARE AVAILABLE AT [http://ir.kirklands.com/Annual\\_Meeting](http://ir.kirklands.com/Annual_Meeting)

By order of the Board of Directors,

W. Michael Madden  
*Senior Vice President,  
Chief Financial Officer and Secretary*

**Table of Contents**

**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. Please note that the doors to the Annual Meeting will open at 8:30 a.m. and will close promptly at 9:00 a.m.**

**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., Central Daylight 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.**

**Table of Contents****Table of Contents**

<u>I. Information About Voting</u>	1
<u>Solicitation of Proxies</u>	1
<u>Agenda Items</u>	1
<u>Who Can Vote</u>	1
<u>How to Vote</u>	1
<u>Use of Proxies</u>	2
<u>Quorum Requirement</u>	2
<u>Vote Required for Action</u>	2
<u>Broker Non-Votes</u>	2
<u>Revoking a Proxy or Changing Your Vote</u>	3
<u>II. The Proposals To Be Voted On</u>	3
<u>III. Board of Directors</u>	5
<u>Nominees for Director</u>	5
<u>Directors Continuing in Office</u>	6
<u>IV. Information About the Board of Directors</u>	7
<u>Board Leadership Structure</u>	7
<u>Code of Business Conduct and Ethics</u>	7
<u>Board Independence</u>	8
<u>Board of Directors and Committee Meetings</u>	8
<u>Audit Committee</u>	8
<u>Compensation Committee</u>	9
<u>Governance and Nominating Committee</u>	10
<u>Director Nomination Process</u>	10
<u>Board in Risk Oversight</u>	11
<u>Board of Directors Compensation</u>	11
<u>V. Security Ownership of Kirkland's</u>	13
<u>Security Ownership of Certain Beneficial Owners and Management</u>	13
<u>VI. Executive Compensation</u>	15
<u>Compensation Discussion and Analysis ( CD&amp;A )</u>	15
Compensation Tables:	
<u>Summary Compensation Table</u>	21
<u>All Other Compensation</u>	21
<u>Grants of Plan-Based Awards</u>	22
<u>Outstanding Equity Awards at 2011 Fiscal Year-End</u>	23
<u>Option Exercises and Stock Vested during Fiscal 2011</u>	24
<u>Nonqualified Deferred Compensation for Fiscal Year 2011</u>	24
<u>Employment Arrangements and Post-Employment Compensation and Benefits</u>	24
<u>Other Compensation Matters</u>	26
<u>Compensation Risk Analysis</u>	26
<u>VII. Related Party Transactions</u>	26
<u>Real Estate Lease</u>	27
<u>Vendor Agreement</u>	28
<u>VIII. Other Matters</u>	28
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	28
<u>Independent Registered Public Accounting Firm</u>	28
<u>Audit Committee Report</u>	28
<u>Audit and Non-Audit Fees</u>	29
<u>Pre-Approval Policy</u>	29
<u>Shareholder Proposals for the 2013 Annual Meeting</u>	30
<u>Expenses Relating to this Proxy Solicitation</u>	31
<b><u>FORM OF PROXY</u></b>	

## **Table of Contents**

### **I. INFORMATION ABOUT VOTING**

#### **Solicitation of Proxies**

Our Board of Directors is soliciting proxies for use at our annual meeting of shareholders to be held on May 30, 2012 (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 28, 2012 ( fiscal 2011 ) on or about April 25, 2012.

#### **Agenda Items**

The agenda for the Annual Meeting is to:

1. Elect three directors;
2. Ratify the selection of Ernst & Young LLP as our independent registered public accounting firm; and
3. Hold an advisory vote on executive compensation.
4. In addition, other business properly brought before the meeting will be conducted.

#### **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 2, 2012. You will have one vote for each share of Common Stock. As of April 2, 2012, there were 18,295,195 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 come to 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;

*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.

## **Table of Contents**

### **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 2012, and **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. 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 by a plurality vote of shares present in person or represented by proxy at the Annual Meeting. The ratification of E&Y as our independent registered public accountants for fiscal 2012, the advisory vote on executive compensation, 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, unless the question is one upon which a larger or different vote is required by express provision of law or by our charter or bylaws. Shares represented by proxies that withhold authority to vote for the election of directors will not be counted in the election of directors in favor of any nominee and will have no effect on the director election.

Shares represented by proxies that are properly marked **abstain** will be counted for purposes of determining the presence of a quorum at the 2012 Annual Meeting. Shares represented by proxies that abstain from voting on the ratification of E&Y as our independent registered public accountant for fiscal 2012 or the advisory vote on executive compensation 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 uncontested election of directors and the advisory vote related to executive compensation are considered non-routine matters and discretionary voting on these matters is prohibited. As a result, if you are a beneficial owner and 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 or the advisory vote on executive compensation, no votes will be cast on your behalf with respect to those proposals. The ratification of auditors is still 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 E&Y 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.

## **Table of Contents**

Because the Company has a plurality 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.

### **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 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.

2501 McGavock Pike, Suite 1000

Nashville, TN 37214

Attention: W. Michael Madden

Senior Vice President, Chief Financial Officer and 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, including one class of three directors and two classes of two 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 seven incumbent directors, consisting of three in Class I whose terms will expire at this Annual Meeting, two in Class II whose terms will expire at the 2013 Annual Meeting, and two in Class III whose terms will expire at the 2014 Annual Meeting.

The nominees for director this year are Steven J. Collins, R. Wilson Orr, III and Miles T. Kirkland. Information about the nominees, the continuing directors and the Board of Directors is contained in the next section of this proxy statement entitled Board of Directors.

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**Table of Contents**

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.

**The Board of Directors recommends a vote FOR the election of Steven J. Collins, R. Wilson Orr, III and Miles T. Kirkland to the Board of Directors.**

**Proposal 2 Ratification of Independent Registered Public Accounting Firm**

Our audit committee (the Audit Committee) has selected Ernst & Young LLP (E&Y) as our independent registered public accounting firm to perform the audit of our consolidated financial statements for the fiscal year 2012. In deciding to engage E&Y, our Audit Committee noted that there were no auditor independence issues raised with E&Y.

Our Board of Directors recommends that the shareholders ratify the selection of E&Y 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 E&Y 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 E&Y 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 E&Y, as well as the fees charged by E&Y 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 E&Y can be found in the following sections of this proxy statement: Board Committees: Audit Committee, at page 8, and Audit Committee Report at page 29. For additional information about E&Y see Independent Registered Public Accounting Firm on page 29 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 2012.**

**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 SEC's rules.

As described in detail under the heading Executive Compensation Compensation Discussion and Analysis on page 15, 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 year 2011 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.

## **Table of Contents**

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 2012 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.**

### **III. BOARD OF DIRECTORS**

#### **Nominees for Director**

##### *Class I Term Expiring in 2015*

##### **Steven J. Collins**

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

*Age:* 43

*Director Since:* 2004

Mr. Collins has been a director of Kirkland's, Inc. since November 2004. Mr. Collins is a Managing Director of Advent International. 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 Party City Holdings, Inc. and several privately held businesses and served on the board of lululemon athletica inc. through June 2009. 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 (from his role at Party City and lululemon athletica in particular), and contributes insight into appropriate Board 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 Kirkland's; Managing Partner of SSM Partners, a private equity investment firm, and a principal of SSM Corporation.

*Age:* 49

*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, and a principal of SSM Corporation. He joined SSM Corporation in 1988 as a Vice President. From 1984 to 1988, he worked in corporate lending at Chemical Bank. Mr. Orr's background in private equity and corporate lending enables him to contribute to the Board's long-term strategic planning.

## **Table of Contents**

### **Miles T. Kirkland**

*Principal Occupation:* Senior Research Analyst and Associate Portfolio Manager with Mastrapasqua Asset Management, a private asset management firm.

*Age:* 40

*Director Since:* 2008

Since 2010, Mr. Kirkland has been 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.

### **Directors Continuing in Office**

#### ***Class III Term Expiring in 2014***

### **Robert E. Alderson**

*Principal Occupation:* President and Chief Executive Officer of Kirkland's

*Age:* 65

*Director Since:* 1986

Mr. Alderson has been a Director of Kirkland's since September 1986 and has been Chief Executive Officer of Kirkland's since February 2006. He also served as Chief Executive Officer of Kirkland's from March 2001 to May 2005. He currently serves as President of Kirkland's, and he also served as President from February 2006 to March 2006 and as President 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 represents our management and their views to the Board; his deep understanding of our business from his 25 years of experience with Kirkland's enables him to keep the Board fully informed of developments throughout the Company.

### **Carl T. Kirkland**

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

*Age:* 71

*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 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 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.

## **Table of Contents**

### ***Class II Term Expiring in 2013***

#### **Murray M. Spain**

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

*Age:* 68

*Director Since:* 2001

Mr. Spain was the co-founder of Dollar Express, Inc. 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 5 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:* 66

*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. and the Board of Directors of Heelys, Inc. Mr. Parks' experience in the retail industry both in the board room and as an executive officer contributes to the Board's 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 Board committees. The Company has determined that it is appropriate for the Chairman of the Board 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. If the CEO or another insider ever serves as Chairman of the Board 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 applicable exchange rules. 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 covers its directors, officers and employees. This Code of Business Conduct and Ethics may be found on the Company's investor website at [www.kirklands.com](http://www.kirklands.com) under Investor Relations Corporate Governance.



## **Table of Contents**

### **Board Independence**

Consistent with the listing standards of The Nasdaq Stock Market ( Nasdaq ) and the regulations promulgated by the Securities and Exchange Commission ( SEC ), a majority of the members of a listed company s board of directors must qualify as independent, as affirmatively determined by the 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 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, and Murray M. Spain. 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 2011, the Board of Directors held five regular meetings. All directors attended every meeting 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 2011 annual meeting of shareholders.

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 under Investor Relations Corporate Governance. 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 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.

*Members:* Mr. Orr (Chairman), Mr. Parks, Mr. M. Kirkland 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.

## **Table of Contents**

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. Because the Board of Directors believes that the current members of the Company's Audit Committee are qualified to carry out all of the duties and responsibilities of the Company's Audit Committee, the Board does not believe that it is necessary at this time to actively search for an outside person to serve on the Board of Directors who would qualify as an audit committee financial expert.

*Number of Meetings in fiscal 2011: 9*

## **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 under Investor Relations Corporate Governance. 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.

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*Members:* Mr. Collins (Chairman), Mr. Spain 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 2011:* 3

## **Table of Contents**

### **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 under Investor Relations Corporate Governance. 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 committees, committee assignments and the position of chairman of each committee.

*Members:* Mr. Parks (Chairman), Mr. Orr, Mr. Collins and Mr. Spain. 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 2011:* 3

### **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 31 under the heading Shareholder Proposals for the 2013 Annual Meeting. The Governance and Nominating Committee applies the same criteria to nominees recommended by shareholders as discussed above.

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 as a whole.

In identifying prospective director candidates, the Governance and Nominating Committee may seek referrals from other members of the Board, 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'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 evaluation process and other perceived needs of the Board.

**Table of Contents**

When considering whether the directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable our Board to satisfy its oversight responsibilities effectively in light of the Company's business and structure, our Board focuses primarily on the information discussed in each director's biographical information set forth on pages 5 to 7. 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.

In 2011, this process resulted in the Governance and Nominating Committee's recommendation to the Board, and the Board's nomination, of the three incumbent directors named in this Proxy Statement and proposed for election by you at the upcoming Annual Meeting.

**Board 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