

Risk Factors Comparison 2025-05-02 to 2024-03-29 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

Investing in our common stock involves risk. You should carefully consider the risks described below and the other information contained in this report and other filings that we make from time to time with the SEC, including our consolidated financial statements and accompanying notes before investing in our common stock. Any of the following risks could materially and adversely affect our business, financial condition, results of operations or liquidity. These risks are not the only risks we face. Our business, financial condition, results of operations or liquidity could also be adversely affected by additional factors that apply to all companies generally or by risks not currently known to us or that we currently view to be immaterial. We can provide no assurance and make no representation that our risk mitigation efforts, although we believe they are reasonable, will be successful. Risks Related to Liquidity Insufficient cash flows from operations could result in the substantial utilization of our secured revolving credit facility ~~and our term loan credit agreement~~, or similar financing, which may limit our ability to conduct certain activities. We are dependent upon generating sufficient cash flows from operations to fund our obligations and strategic investments. We maintain a secured revolving credit facility ~~and a term loan credit agreement~~ to enable us to acquire merchandise, to fund working capital requirements and to support standby letters of credit. Borrowings under the secured revolving credit facility ~~and term loan credit agreement~~ are subject to a borrowing base calculation consisting of a percentage of certain of our eligible assets and are subject to advance rates, **appraisals**, and commercially reasonable reserves. Substantial utilization of the available borrowing base will result in various restrictions, including restrictions on the ability to repurchase our common stock or pay dividends and an increase in the lender's control over the Company's cash accounts. Our revolving credit facility and ~~term loan~~ **our Beyond Credit Agreement** contain a number of affirmative and restrictive covenants that may also limit our actions. Continued negative cash flows from operations could result in increased borrowings under our revolving credit facility ~~and term loan credit agreement~~ to fund operational needs, increased utilization of letters of credit and greater dependence on the availability of the revolving credit facility ~~and term loan credit agreement~~. These actions could result in us being subject to increased restrictions, incurring increased interest expense and increasing our leverage. See "Item 8. Financial Statements and Supplementary Data – Note ~~4-5~~ **Credit Agreements-Long- Term Debt**" for additional discussion. We could be required to refinance our debt before it matures **or need to obtain additional financing** and there is no assurance that we will be able to refinance our debt on acceptable terms **or obtain additional financing**. Our ability to refinance each of our agreements governing our indebtedness on acceptable terms will be dependent upon a number of factors, including our degree of leverage, **our future operating performance**, the value of our assets, borrowing restrictions which may be imposed by lenders and conditions in the credit markets at the time we refinance. **Rising High** interest rates may make future refinancing more difficult to obtain on favorable terms. In addition, although we have previously been successful in negotiating amendments to our revolving credit ~~agreement~~ **facility** and in securing **additional financing** ~~our new term loan~~, we may be unsuccessful in negotiating any further amendments or modifications to the agreements governing our indebtedness **or obtaining additional financing** as we may deem necessary. To the extent we are unable to refinance our debt **or obtain additional financing** on acceptable terms, we may be forced to choose from a number of unfavorable options, including agreeing to otherwise unfavorable financing terms or defaulting and allowing our lenders to foreclose. Any one of these options could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our ~~stockholders~~ **shareholders. Our indebtedness could adversely affect our financial flexibility and our strategic initiatives. As of February 1, 2025, the secured revolving credit facility had \$ 43. 0 million of outstanding debt and the Beyond Credit Agreement had \$ 17. 0 million of outstanding debt. Our level of indebtedness increases the risk that we may be unable to generate cash sufficient to pay amounts due in respect of our indebtedness. Our indebtedness could have other important consequences and effects on our business, such as increasing our vulnerability to adverse changes in general economic, industry and competitive conditions, require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes, limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, restrict us from executing our multi- brand strategy, make it more difficult to satisfy our financial obligations, including payments on our indebtedness, place us at a disadvantage compared to our competitors that have less debt and limit our ability to borrow additional funds for working capital and the execution of our business strategy**. To service our debt and pay other obligations, we will require a significant amount of cash, which may not be available to us. Our ability to make payments on, repay or refinance our debt and any future debt we may incur, and to fund planned capital expenditures will depend largely upon our future operating performance and our ability to generate cash from operations. Our future performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds in the future to make payments on our debt and other obligations will depend on the satisfaction of the covenants and financial ratios in our secured revolving credit facility and our other debt agreements, including other agreements we may enter into in the future. Our business may not generate sufficient cash flow from operations, or we may not have future borrowings available to us under our credit facility or from other sources in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs. If we do not generate sufficient cash flow from operations, we may not be able to implement our strategic initiatives and fund our obligations. The ability to execute our strategic initiatives, including our financial turnaround strategy, will depend on, among other factors, the availability of adequate capital, which in turn will depend in large

part on cash flow generated by our business and the availability of equity and debt capital. The cost of improving our omni-channel capabilities including increasing our online **conversion sales capabilities**, closing or relocating **under-performing underperforming** stores, remodeling existing stores and opening new stores will increase in the future compared to historical costs. There can be no assurance that our business will generate adequate cash flow or that we will be able to obtain equity or debt capital on acceptable terms, or at all. Moreover, our revolving credit facility **and our term loan credit agreement contain contains** provisions that restrict the amount of debt we may incur in the future. **In addition, our liquidity position may limit our ability to negotiate or obtain store leases on favorable terms.** If we are not successful in obtaining sufficient capital, we may be unable to **improve profitability** increase sales generated online and in stores, which may adversely affect our business strategy. There can be no assurances that we will have sufficient cash flow from operations or adequate capital to achieve our plans for **improving omni-channel growth including growing in-store and online sales profitability.** Our independent registered public accounting firm's report for the year ended February 1, 2025 is qualified as to our ability to continue as a going concern. Due to the uncertainty of our ability to meet our current operating and capital expenses, in our audited annual financial statements as of and for the year ended February 1, 2025, our independent registered public accounting firm included a description within our financial statements related to our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our capacity to (i) improve operating results and liquidity through improved profitability, (ii) reduce operating costs and (iii) obtain additional financing under acceptable terms, if at all. The presence of the going concern description in our financial statements may have an adverse impact on the relationships we are developing and plan to develop with third parties as we continue to operate our business and source our products and could make it challenging and difficult for us to raise additional financing, all of which could have a material adverse impact on our business and prospects and result in a significant or complete loss of your investment. Our conclusion that substantial doubt exists about our ability to continue as a going concern requires an explanatory paragraph in the report of our independent registered public accounting firm on our accompanying financial statements for the fiscal year ended February 1, 2025, which results in a violation of affirmative covenants under our revolving credit facility and the Beyond Credit Agreement. If we are unable to obtain a waiver from our lenders, our lenders could instruct the administrative agent under such credit facilities to exercise available remedies including, declaring the principal of and accrued interest on all outstanding indebtedness immediately due and payable and terminating all remaining commitments and obligations under the credit facilities. Although the lenders under our credit facilities may waive the defaults or forbear the exercise of remedies, the lenders are not obligated to do so. Failure to obtain such waivers would have a material adverse effect on the liquidity, financial condition and results of operations and may result in filing a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in order to implement a restructuring plan. **Risks Related to our Strategic Partnership with Beyond** We might not be able to obtain various synergies as contemplated in the Collaboration Agreement. Our ability to obtain the various synergies envisioned in the Collaboration Agreement is dependent on successfully identifying, developing and implementing plans and initiatives intended to drive such synergies. If such plans and initiatives are not properly identified, developed and successfully executed, or if execution or realization of positive synergies takes longer than expected, our financial condition and results of operations could be adversely affected. There can be no assurance that we will be able to successfully open and operate Bed Bath & Beyond, Buy Buy Baby or Overstock retail stores under the Trademark License Agreement, which grants us the exclusive license to operate small format, neighborhood brick- and- mortar stores under licensed Beyond- owned trademarks. If we do open and operate the stores, there can be no assurance that they will be profitable. The success of our plans and initiatives is subject to risks and uncertainties with respect to execution, market conditions, customer acceptance and other factors that may cause actual results, performance or achievements to differ materially, and adversely, from our plans or expected results. In addition, our ability to successfully market our products to Beyond's customers and to grow our customer base might not be successful. We can provide no assurance that we can realize additional opportunities for growth and innovation through this partnership. Further, we could lose current customers because of this partnership by alienating our current customer base, which could negatively impact our operating performance. There might be unintended and unanticipated negative side effects related to the Beyond strategic partnership. The strategic partnership with Beyond could have a negative impact on the Company's business relationships, operating results and business, generally. The partnership could divert management's attention from ongoing Kirkland's business operations. Also, there could be unexpected costs, charges or expenses resulting from the partnership. Finally, there could be potential litigation relating to the strategic partnership against the Company or the Company's directors, managers or officers, including the effects of any outcomes related thereto. Any one of these risks could negatively impact our operating performance and liquidity. **Risks Related to Strategy and Strategy Execution** **Execution** If we fail to identify, develop and successfully implement our short- term and long- term strategic initiatives, our financial performance could be negatively impacted. Our ability to execute our brand strategy and to deliver improved financial performance is dependent on successfully identifying, developing and implementing plans and initiatives intended to drive sustainable, increased financial performance, including, but not limited to, our efforts to **improve maintain** existing and acquire new customers who fit our **or traditional customer profile eliminate underperforming stores**, reintroduce more seasonal and impulse items **optimize e-commerce performance through SKU rationalization, expanding product categories** with larger average order values lower price points to attract price-conscious customers, increase our brand **and leveraging** recognition, elevate our customer **collaboration with Beyond to enhance site** experience and invest in technology improvements **improve conversion, expand the Kirkland's Home name through private label distribution across our collective family of omni-channel brands and open and profitably operate Bed Bath & Beyond, Buy Buy Baby or Overstock stores.** If such plans and initiatives are not properly identified, developed and successfully executed, or if

execution or realization of positive results takes longer than expected, our financial condition and results of operations could be adversely affected. The success of our plans and initiatives is subject to risks and uncertainties with respect to execution, market conditions and other factors that may cause actual results, performance or achievements to differ materially, and adversely, from our plans and expected results. If we are unable to successfully maintain, improve and grow a **profitable**, best-in-class omni-channel experience for our customers, it could adversely affect our sales, results of operations and reputation. As consumers continue to migrate online, we face pressures to stay relevant in retail's ever-changing environment and to compete with other omni-channel retailers, online-only retailers and retailers with only stores. We continue to invest in our omni-channel capabilities to provide a seamless and engaging shopping experience between our store locations and our online and mobile environments. Insufficient, untimely or misguided investments in this area could significantly impact our profitability and growth and affect our ability to attract new customers, as well as maintain our existing ones. In addition, declining customer store traffic and migration of sales from stores to digital platforms could enhance these risks due to increased reliance on our omni-channel capabilities and could lead to restructuring and other costs that could adversely impact our results of operations and cash flows. Our business has evolved from an in-store experience to interactions with customers across multiple channels including in-store, online, mobile and social media, among others. Our customers are using computers, tablets, mobile phones and other devices to shop on our website and provide feedback and public commentary about all aspects of our business. Omni-channel retailing is rapidly evolving, and we must keep pace with changing customer expectations and new developments and technology investments by our competitors. Successful operation of our e-commerce initiatives are dependent on our ability to maintain uninterrupted availability of the Company's website and supporting applications, adequate and accurate inventory levels **of margin positive products**, timely fulfillment of customer orders, accurate shipping of undamaged products **at acceptable shipping rates**, and coordination of those activities within our stores when appropriate. Maintenance of our website requires substantial development and maintenance efforts, and entails significant technical and business risks. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our website. The sale of products through e-commerce is characterized by rapid technological change, the emergence of new industry standards and practices and changes in customer requirements and preferences. Therefore, we may be required to license emerging technologies, enhance our existing website, develop new services and technology that address the increasingly sophisticated and varied needs of our current and prospective customers, and adapt to technological advances and emerging industry and regulatory standards and practices in a cost-effective and timely manner. Our ability to remain technologically competitive may require substantial expenditures and lead time, and our failure to do so may harm our business and results of operations. If we are unable to attract and retain technical employees or contract with third parties having the specialized skills needed to support our omni-channel efforts, we might not be able to implement improvements to our customer-facing technology in a timely manner or provide a convenient and consistent experience for our customers, which could negatively affect our operations. In addition, if www.kirklands.com and our other customer-facing technology systems do not appeal to our customers or reliably function as designed, we may experience a loss of customer confidence, loss of sales or be exposed to fraudulent purchases, which, if significant, could adversely affect our reputation and results of operations. Moreover, to make available our omni-channel platform, we rely on various technology systems and services, some of which are provided and managed by third-party service providers. To the extent such third-party components do not perform or function as anticipated, such failure can significantly interfere in our ability to meet our customers' changing expectations. If we are unable to profitably operate our existing stores, we may not be able to execute our business strategy, resulting in a decrease in net sales and profitability. A key element of our strategy is to operate profitable stores, both in existing markets and in new geographic markets that we select based on customer data and demographics. Our ability to **improve, close or** ~~relocate under-performing~~ **underperforming stores and open profitable Bed Bath & Beyond, Buy Buy Baby or Overstock** stores depends on a number of factors, including the prevailing conditions in the commercial real estate market, our ability to locate favorable store sites and negotiate acceptable lease terms, and hire and train skilled managers and personnel. There can be no assurance that we will be able to relocate and / or open stores. Furthermore, there is no assurance that existing stores will generate the net sales levels necessary to achieve store-level profitability. Also, any stores that we open in our existing markets may draw customers away from our existing stores, resulting in lower net sales growth compared to stores opened in new markets. Our stores face great competition and could have lower than anticipated net sales volumes. Traffic decline to our stores could negatively impact operating results. Stores located in areas where we are less well-known, and where we are less familiar with the target customer, may face different or additional risks and increased marketing and other costs compared to stores operated in well-established existing markets. These factors may reduce our average store contribution and operating margins. If we are unable to profitably operate our existing stores, ~~close and relocate under-performing~~ **underperforming** stores **or convert underperforming stores to a more margin accretive brand**, our net income could suffer. Every year we decide to close certain stores based on a number of factors, including, but not limited to, excessive rent or other operating cost increases, inadequate profitability, short term leases, or the landlord's ability to replace us with another tenant at more favorable terms to the landlord. Store closings have the effect of reducing net sales. We may choose to close ~~under-performing~~ **underperforming** stores before lease expiration and incur termination costs associated with those closings. If we are not able to increase online sales at a pace that exceeds the closing of existing ~~under-performing~~ **underperforming** stores, or transfer customers from closing stores to a nearby existing store, our revenue could decrease. If our store strategy, including negotiating lease occupancy costs with landlords, does not go as planned and / or we are unable to transfer these existing store customers to other nearby stores or to online sales, our revenue **and profitability** could decrease, and results of operations could suffer. We may not be able to successfully anticipate consumer trends, and our failure to do so may lead to loss of consumer acceptance of our products, resulting in reduced net sales, higher inventory and higher inventory markdowns. Our success depends on our ability to anticipate and respond to changing merchandise trends and consumer demands in a timely manner. While we devote

considerable effort and resources to shape, analyze and respond to consumer preferences, consumer spending patterns and preferences cannot be predicted with certainty and can change rapidly. Our product introductions and product improvements, along with our other marketplace initiatives, are designed to capitalize on consumer trends. In order to remain successful, we must anticipate and react to these trends and develop new products or processes to address them. If we fail to identify and respond to emerging trends, consumer acceptance of the merchandise in our stores and our image with our customers may be harmed, which could reduce customer traffic in our stores and materially adversely affect our net sales. Additionally, if we misjudge market trends, we may significantly overstock unpopular products and be forced to take significant inventory markdowns, which would have a negative impact on our gross profit and cash flow. Conversely, shortages of items that prove popular could result in missed sales. In addition, a major shift in consumer demand away from home décor could also have a material adverse effect on our business, results of operations and financial condition. Our success depends upon our marketing, advertising and promotional efforts, and customer loyalty programs. If we are unable to implement them successfully, or if our competitors market, advertise or promote more effectively than we do, our revenue may be adversely affected. We use marketing, promotional and loyalty programs to attract customers to our stores and to encourage purchases by our customers online. We use various media for our promotional efforts, including customer- targeted direct mail and email communications, as well as various digital and social media initiatives. If we fail to choose the appropriate medium for our efforts, or fail to implement and execute loyalty programs or marketing opportunities, our competitors may be able to attract some of our customers. If our competitors increase their spending on advertising and promotions, if our advertising, media or marketing expenses increase, if our loyalty program or advertising and promotions become less effective than those of our competitors, or if we do not adequately leverage technology and data analytic capabilities needed to generate concise competitive insight, we could experience a material adverse effect on our results of operations. A failure to sufficiently innovate, develop customer loyalty programs, or maintain adequate and effective advertising could inhibit our ability to maintain brand relevance and drive increased sales. Our loyalty program offers customer incentives, which include earning points that are converted to reward dollars that can be redeemed on future purchases, in addition to other bonus offers. If our customers do not respond positively to this program or if the program costs more than anticipated in reward redemptions, our financial results could be adversely impacted.

Competition ~~Competition~~ **Competition** We face an extremely competitive specialty retail business market, and such competition could result in a reduction of our prices and a loss of our market share. The retail market is a highly competitive market. Accordingly, we compete against a diverse group of retailers, including specialty stores, department stores, discount stores, and catalog and internet- based retailers, which sell similar lines of merchandise to those carried by us. The substantial sales growth in the e- commerce industry within the last decade has encouraged the entry of many new competitors, including discount retailers selling similar products at reduced prices, new business models, and an increase in competition from established companies, many of whom are willing to spend significant funds and / or reduce pricing in order to gain market share. Our competitors, many of which are larger and have substantially greater financial and other resources than us, include HomeGoods, HomeSense, Walmart, World Market, Crate & Barrel, Williams- Sonoma, Inc., Hobby Lobby, At Home, Target, Ebay, Amazon and Wayfair. Our stores and our www. kirklands. com website also compete with the ever- increasing number of internet retail websites offering home décor merchandise. The availability of home décor merchandise from various competitors on the internet could result in increased price competition as our customers are more readily able to comparison shop, which could reduce our sales, prices and margins and adversely affect our results of operations. Further, unanticipated changes in pricing or other practices of our competitors, including promotional activity, such as thresholds for free shipping and rapid price fluctuation enabled by technology, may adversely affect our performance. Several of our competitors have greater financial, distribution, logistics, marketing and other resources available to them, and they may also be able to adapt to changes in customer requirements more quickly, devote greater resources to the design, sourcing, distribution, marketing and sale of their products, generate greater national brand recognition or adopt more aggressive pricing policies. Our competitors may also be able to increase sales in their new and existing markets faster than we do by emphasizing different distribution channels than we do. If we are unable to overcome these potential competitive disadvantages, such factors could have an adverse effect on our business, financial condition and results of operations.

Reputation ~~Reputation~~ **Reputation** Our Our results could be negatively impacted if our merchandise offering suffers a substantial impediment to its reputation due to real or perceived quality issues. Maintaining, promoting and growing our merchandise offering will depend largely on the success of our design, merchandising, and marketing efforts and our ability to provide a consistent, high- quality customer experience. If we fail to achieve these objectives, our public image and reputation could be tarnished by negative publicity. If our merchandise offerings do not meet applicable safety standards or customer expectations regarding safety, we could experience lost sales and increased costs and be exposed to legal and reputational risk. All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety standards. Events that give rise to actual, potential or perceived product safety concerns with respect to our products could expose us to government enforcement action or private litigation and result in costly product recalls and other liabilities. In addition, negative customer perceptions regarding the safety of the products we sell could cause our customers to seek alternative sources for their needs, resulting in lost sales. In those circumstances, it may be difficult and costly for us to regain customer confidence. If we fail to maintain a positive social media brand perception, it could have a negative impact on our operations, financial results and reputation. Maintaining a good reputation is critical to our business. Social media has increased the risk that our reputation could be negatively impacted in a short amount of time. If we are unable to quickly and effectively respond to occurrences of negative publicity through social media or otherwise, we may suffer declines in customer loyalty and traffic, vendor relationship issues, diversion of management' s time to respond and other adverse effects, all of which could negatively impact our operations, financial results and reputation. If we fail to protect our brand name, competitors may adopt trade names that dilute the value of our brand name. We may be unable or unwilling to strictly enforce our trademarks in each jurisdiction in which we do business. Also, we may not always be

able to successfully enforce our trademarks against competitors or against challenges by others. Our failure to successfully protect our trademarks could diminish the value and efficacy of our brand recognition, harm our rebranding efforts and could cause customer confusion, which could, in turn, adversely affect our sales and profitability. Our business could be negatively impacted by corporate citizenship and sustainability matters. There is an increased focus from U. S. and foreign governmental and nongovernmental authorities and from certain investors, customers, consumers, employees, and other stakeholders concerning corporate citizenship and sustainability matters. From time to time, we announce certain initiatives, including goals regarding our focus areas, which include environmental matters, packaging and waste, responsible sourcing, social investments and inclusion and diversity. We could fail, or be perceived to fail, in our achievement of such initiatives or goals, or we could fail in accurately reporting our progress on such initiatives and goals. Such failures could be due to changes in our business. Moreover, the standards by which citizenship and sustainability efforts and related matters are measured are developing and evolving, and certain areas are subject to assumptions, which could change over time. In addition, as the result of such heightened public focus on sustainability matters, we may face increased pressure to provide expanded disclosure, make or expand commitments, set targets, or establish additional goals and take actions to meet such goals, in connection with such matters. We could also be criticized for the scope of such initiatives or goals or perceived as not acting responsibly in connection with these matters. Any such matters, or related corporate citizenship and sustainability matters, could adversely affect our business, results of operations, cash flows and financial condition. Risks Related to New Legislation, Regulation and **Litigation Existing** ~~Litigation Existing~~ and new legal requirements could adversely affect our operating results. Our business is subject to numerous federal, state and local laws and regulations. We routinely incur costs in complying with these laws and regulations. We are exposed to the risk that federal, state or local legislation may negatively impact our operations. Changes in product regulations (including changes in labeling or disclosure requirements), federal or state wage requirements including minimum wage requirements, employee rights (including changes in the process for our employees to join a union), health care, social welfare or entitlement programs such as health insurance, paid leave programs, or other changes in workplace regulation or tax laws could adversely impact our ability to achieve our financial targets. Changes in other regulatory areas, such as consumer credit, privacy and information security, or environmental regulation may result in significant added expenses or may require extensive system and operating changes that may be difficult to implement and / or could materially increase our costs of doing business. Untimely compliance or noncompliance with applicable laws and regulations may subject us to legal risk, including government enforcement action, significant fines and penalties and class action litigation, as well as reputational damage, which could adversely affect our results of operations. Greenhouse gases (“ GHG ”) may have an adverse effect on global temperatures, weather patterns, and the frequency and severity of extreme weather and natural disasters. Global climate change could result in certain types of natural disasters occurring more frequently or with more intense effects. Such events could make it difficult or impossible for us to deliver products to our customers by creating delays and inefficiencies in our supply chain. Following an interruption to our business, we could require substantial recovery time, experience significant expenditures to resume operations, and lose significant sales. Further, concern over climate change, including global warming, has led to, and we expect will continue to lead to, legislative and regulatory initiatives directed at limiting GHG emissions around the world. If domestic or international laws or regulations were expanded to require GHG emission reporting or reduction by us or our third- party manufacturers, or if we engage third- party contract manufacturers in countries that have existing GHG emission reporting or reduction laws or regulations, we would need to expend financial and other resources to comply with such regulations and / or to monitor our third- party manufacturers’ compliance with such regulations. In addition, we cannot control the actions of our third- party manufacturers or the public’ s perceptions of them, nor can we assure that these manufacturers will conduct their businesses using climate change proactive or sustainable practices. Violations of climate change laws or regulations by third parties with whom we do business could result in negative public perception of us and / or delays in shipments and receipt of goods and could subject us to fines or other penalties, any of which could restrict our business activities, increase our operating expenses or cause our sales to decline. Additionally, our products are subject to regulation of **Litigation Existing** and regulatory standards set by various governmental authorities with respect to quality and safety. These regulations and standards may change from time to time. Our inability to comply on a timely basis with regulatory requirements could result in significant fines or penalties, which could adversely affect our reputation and sales. Issues with the quality and safety of merchandise we sell, regardless of our culpability, or customer concerns about such issues, could result in damage to our reputation, lost sales, uninsured product liability claims or losses, merchandise recalls and increased costs. The costs and other effects of new legal requirements or changes in existing legal requirements cannot be determined with certainty. Additional laws may directly or indirectly affect our production, distribution, packaging, cost of raw materials or fuel, any of which could impact our business and financial results. In addition, our efforts to comply with existing or new legislation or regulations may increase our costs. Our business could suffer if a manufacturer fails to use acceptable labor and environmental practices. We do not control our vendors or the manufacturers that produce the products we buy from them, nor do we control the labor and environmental practices of our vendors and these manufacturers. The violation of labor, safety, environmental and / or other laws and standards by any of our vendors or these manufacturers, or the divergence of the labor and environmental practices followed by any of our vendors or these manufacturers from those generally accepted as ethical in the United States, could interrupt, or otherwise disrupt, the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our reputation, financial condition and results of operations. In that regard, most of the products we sell are manufactured overseas, primarily in China, which may increase the risk that the labor and environmental practices followed by the manufacturers of these products may differ from those considered acceptable in the United States. Product liability claims could adversely affect our reputation. Despite our best efforts to ensure the quality and safety of the products we sell, we may be subject to product liability claims from customers or penalties from government agencies relating to allegations that the products sold by us are misbranded, contain contaminants or impermissible ingredients, provide

inadequate instructions regarding their use or misuse, or include inadequate warnings concerning flammability or interactions with other substances. Such claims may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling and transportation phases. All of our vendors and their products must comply with applicable product and safety laws. We generally seek contractual indemnification and insurance coverage from our suppliers. However, if we do not have adequate insurance or contractual indemnification available, such claims could have a material adverse effect on our business, financial condition and results of operation. Our ability to obtain indemnification from foreign suppliers may be hindered by the manufacturer's lack of understanding of United States product liability or other laws, which may make it more likely that we be required to respond to claims or complaints from customers as if we were the manufacturer of the products. Even with adequate insurance and indemnification, such claims could significantly damage our reputation and consumer confidence in our products. Our litigation expenses could increase as well, which also could have a materially negative impact on our results of operations even if a product liability claim is unsuccessful or is not fully pursued. Litigation may adversely affect our business, financial condition, results of operations or liquidity. Our business is subject to the risk of litigation by employees, consumers, vendors, competitors, intellectual property rights holders, shareholders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions or other litigation means. The outcome of litigation, particularly class action lawsuits, regulatory actions and intellectual property claims, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our consolidated financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend future litigation may be significant. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition, results of operations or liquidity.

Risks Associated with Vendors and Distribution We are dependent on foreign imports for a significant portion of our merchandise, and any changes in the trading relations and conditions between the United States and the relevant foreign countries may lead to a decline in inventory resulting in a decline in net sales, or an increase in the cost of sales resulting in reduced gross profit. In fiscal ~~2023~~ **2024**, approximately ~~53~~ **51** % of our merchandise was purchased through vendors in the United States who either import merchandise from foreign countries or contract with domestic manufacturers, while approximately ~~47~~ **49** % of our merchandise was directly sourced by us from factories in foreign countries. We are subject to the risks involved with relying on products manufactured abroad, particularly to the extent that their effects are passed through to us by our vendors or that those risks directly apply to us. These risks include changes in import duties, quotas, loss of "most favored nation" trading status with the United States for a particular foreign country, work stoppages, delays in shipments, first cost price increases, freight cost increases, exchange rate fluctuations, terrorism, public health crises, war, economic uncertainties (including inflation, foreign government regulations and political unrest), trade restrictions (including the United States imposing anti-dumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices) and other factors relating to foreign trade, including costs and uncertainties associated with efforts to identify and disclose sources of "conflict minerals" used in products that we cause to be manufactured and potential sell-through difficulties and reputational damage that may be associated with our inability to determine that such products are classified as "DRC conflict-free." If any of these or other factors were to cause a disruption of trade, from the countries in which the suppliers of our vendors or our direct suppliers are located, our inventory levels may be reduced, or the cost of our products may increase. We cannot predict the effect that future changes in economic or political conditions in foreign countries may have on our operations. Although we believe that we could access alternative sources in the event of disruptions or delays in supply due to economic, political or health conditions in foreign countries, such disruptions or delays may adversely affect our results of operations unless and until alternative supply arrangements can be made. In addition, merchandise purchased from alternative sources may be of lesser quality or more expensive than the merchandise we currently purchase abroad. Countries from which we or our vendors obtain these products may, from time to time, impose new or adjust prevailing quotas or other restrictions on exported products, and the United States may impose new duties, quotas and other restrictions on imported products. This could disrupt the supply of such products to us and adversely affect our operations. The United States Congress periodically considers other restrictions on the importation of products obtained for us. The cost of such products may increase for us if applicable duties are raised or import quotas with respect to such products are imposed or made more restrictive. Approximately ~~73~~ **71** % of our fiscal ~~2023~~ **2024** merchandise purchases are products manufactured in China. We have developed strategies to try to mitigate the impact of current and potential future tariffs, including collaborative efforts with our vendor partners and raising retail prices. There can be no assurance that the imposed tariffs will not be increased, expanded or extended, or that the issues that led the Office of the U. S. Trade Representative to impose the tariffs will be resolved. The impact of these tariffs on current and future fiscal years could have a material adverse effect on our cost of goods sold and results of operations.

We continue to evaluate the impact of the currently effective tariffs, including potential future retaliatory tariffs, as well as other recent changes in foreign trade policy on our supply chain, costs, sales and profitability. We are working through strategies to mitigate such impact, including working with our vendors and merchants on pricing, raising consumer retail prices and delaying or resourcing purchases of inventory away from countries with the highest tariff rates. Delayed inventory purchases could also lead to inventory shortages impacting the proper timing of seasonal merchandise arriving in stores or online. At this time, it is unknown how long elevated U. S. tariffs on Chinese goods will remain in effect or whether additional tariffs on Chinese goods, or goods from other countries from which we source our products, will be imposed. The prolonged effect of tariffs on all countries that we

source our products from or the imposition of additional tariffs or other trade barriers could increase our costs in certain markets and may make it more difficult for us to acquire, transport and sell our products in some markets or to some customers, which may result in declines in our sales, margins and operating results.

We depend on a number of vendors to supply our merchandise, and any delay in merchandise deliveries from certain vendors may lead to a decline in inventory, which could result in a loss of net sales. Any disruption in the supply or increase in pricing of our merchandise could negatively impact our ability to achieve anticipated operating results. We purchase our products from approximately 180 vendors with which we have no long-term purchase commitments or exclusivity contracts. We have a core group of approximately 80 vendors that provide approximately 90-92% of our merchandise. No vendor provides over 10% of our merchandise purchases. Any disruption in the relationship with our core vendors could negatively impact our ability to achieve anticipated operating results. Historically, we have retained our vendors, and we have generally not experienced difficulty in obtaining desired merchandise from vendors on acceptable terms. However, our arrangements with these vendors do not guarantee the availability of merchandise, establish guaranteed prices or provide for the continuation of particular pricing practices. Our current vendors may not continue to sell products to us on current terms or at all, and we may not be able to establish relationships with new vendors to ensure delivery of products in a timely manner or on terms acceptable to us. In addition, a period of unfavorable financial performance may make it difficult for some of our vendors to arrange for the financing or factoring of their orders with manufacturers, which could result in our inability to obtain desired merchandise from those vendors. **Our future success will depend upon our ability to maintain our existing vendor relationships or to develop new ones, especially as it relates to former Bed Bath & Beyond vendors to supply us with national brand products for any of our future Bed Bath & Beyond, Buy Buy Baby and Overstock stores.** We may not be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. Also, our business would be adversely affected if there were delays in product shipments to us due to shipping difficulties, strikes or other difficulties at our principal transport providers or otherwise. We have from time to time experienced delays of this nature. We are also dependent on vendors for assuring the quality of merchandise supplied to us. Our inability to acquire suitable merchandise in the future or the loss of one or more of our vendors and our failure to replace any one or more of them may harm our relationship with our customers resulting in a loss of net sales. Our success is highly dependent on our planning and control processes and our supply chain, and any disruption in or failure to continue to improve these processes may result in a loss of net sales and net income. An important part of our efforts to achieve efficiencies, cost reductions and net sales growth is the continued identification and implementation of improvements to our planning, logistical and distribution infrastructure and our supply chain, including merchandise ordering, transportation and receipt processing. In addition, recent increases in energy prices have resulted, and are expected to continue to result, in increased merchandise and freight costs, which cannot readily be offset through higher prices because of competitive factors. The distribution of products to our stores and directly to our customers is coordinated through our third-party west coast bypass operation, our distribution facility in Jackson, Tennessee and our third-party distribution center in Lancaster, Texas. We depend on the orderly operation of these receiving and distribution facilities, which rely on adherence to shipping schedules and effective management. In 2023, we closed our North Las Vegas, Nevada and Winchester, Virginia e-commerce order fulfillment centers to reduce fixed costs and consolidate our operations. We make significant upgrades to our warehouse management software. If these changes or upgrades do not go smoothly or timely, then we could face significant disruptions with our distribution process and incur excess costs related to the upgrades. In addition, we cannot assure that events beyond our control, such as disruptions due to fire or other catastrophic events, adverse weather conditions, labor disagreements or shipping problems, will not result in delays in the delivery of merchandise to our stores or directly to our customers. We also cannot guarantee that our insurance will be sufficient, or that insurance proceeds will be timely paid to us, in the event that any of our distribution facilities are shut down for any reason. Any significant disruption in the operations of our distribution facilities would have a material adverse effect on our ability to maintain proper inventory levels in our stores and satisfy our online orders, which could result in a loss of net sales and net income. Our freight costs and thus our cost of goods sold are impacted by changes in fuel prices. Our freight cost is impacted by changes in fuel prices through surcharges. Fuel prices and surcharges affect freight costs with respect to both inbound freight from vendors to our distribution centers and outbound freight from our distribution centers to our stores. Increased fuel prices or surcharges may increase freight costs and thereby increase our cost of goods sold. Risks Related to Technology and Data ~~Security Failure Security Failure~~ to protect the integrity and security of individually identifiable data of our customers and employees could expose us to litigation and damage our reputation; the expansion of our e-commerce business has inherent cybersecurity risks that may result in business disruptions. We receive and maintain certain personal information about our customers and employees in the ordinary course of business. Our use of this information is regulated at the international, federal and state levels, as well as by certain third parties with whom we contract for such services. If our security and information systems are compromised or our business associates fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, as well as operations, results of operations, and financial condition and could result in litigation or the imposition of penalties. As privacy and information security laws and regulations change, we may incur additional costs to ensure we remain in compliance. Our business requires collection of large volumes of internal and customer data, including credit card numbers and other personally identifiable information of our customers in various information systems and those of our service providers. The integrity and protection of customer, employee, and company data is critical to us. If that data is inaccurate or incomplete, we or the store employees could make faulty decisions. Customers and employees also have a high expectation that we and our service providers will adequately protect their personal information. The regulatory environment surrounding information, security and privacy is also increasingly demanding. Our existing systems may be unable to satisfy changing regulatory requirements and employee and customer expectations, or may require significant additional investments or time to do so. Despite implementation of various measures designed to protect our information systems and records, including those we maintain with our service

providers, we may be subject to security breaches, system failures, viruses, operator error or inadvertent releases of data. A significant theft, loss, or fraudulent use of customer, employee, or company data maintained by us or by a service provider or failure to comply with the various United States and international laws and regulations applicable to the protection of such data or with Payment Card Industry data security standards could adversely impact our reputation and could result in remedial and other expenses, fines, or litigation. A breach in the security of our information systems or those of our service providers could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits. Certain aspects of the business, particularly our website, heavily depend on consumers entrusting personal financial information to be transmitted securely over public networks, which increases our exposure to cybersecurity risks. We invest considerable resources in protecting the personal information of our customers but are still subject to the risks of security breaches and cyber incidents resulting in unauthorized access to stored personal information. Any breach of our cybersecurity measures could result in violation of privacy laws, potential litigation, and a loss of confidence in our security measures, all of which could have a negative impact on our financial results and our reputation. In addition, a privacy breach or other type of cybercrime or cybersecurity attack could cause us to incur significant costs to restore the integrity of our system, could require the devotion of significant management resources, and could result in significant costs in government penalties and private litigation. Our information technology is vulnerable to obsolescence, interruption and damage that could harm our business. We rely upon our existing information systems for operating and monitoring all major aspects of our business, including sales, warehousing, distribution, purchasing, inventory control, merchandise planning and replenishment, as well as various financial functions. These systems and our operations are vulnerable to damage or interruption from fire, flood and other natural disasters, power loss, computer systems failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic loss of data, misappropriation, computer viruses, malicious attacks and security breaches. Any disruption in the operation of our information technology, the loss of employees knowledgeable about such systems or our failure to continue to effectively modify such systems could interrupt our operations or interfere with our ability to monitor inventory or process customer transactions, which could result in reduced net sales and affect our operations and financial performance. We also need to ensure that our systems are consistently adequate to handle our anticipated growth and are upgraded, as necessary, to meet our needs. The cost of any such technology upgrades or enhancements could be significant. If our systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to manage inventories or process customer transactions, which could adversely affect our results of operations. We also rely heavily on our information technology employees. Failure to meet these staffing needs may negatively affect our ability to fulfill our technology initiatives, while impacting our ability to maintain our existing systems. We rely on certain vendors to maintain and periodically upgrade many of these systems. The software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these systems and software programs could disrupt or reduce the efficiency of our operations if we are unable to convert to alternate systems in an efficient and timely manner. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology, or with maintenance or adequate support of existing systems, could also disrupt or reduce the efficiency of our operations. Risks Related to Governance Our charter and bylaw provisions and certain provisions of Tennessee law may make it difficult in some respects to cause a change in control of Kirkland's and replace incumbent management. Our charter authorizes the issuance of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our Board of Directors. Accordingly, the Board of Directors is empowered, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could materially adversely affect the voting power or other rights of the holders of our common stock. Holders of our common stock do not have preemptive rights to subscribe for a pro rata portion of any capital stock that may be issued by us. In the event of issuance, such preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of Kirkland's. Our charter and bylaws contain certain corporate governance provisions that may make it more difficult to challenge management, deter and inhibit unsolicited changes in control of Kirkland's and have the effect of depriving our shareholders of an opportunity to receive a premium over the prevailing market price of our common stock in the event of an attempted hostile takeover. First, the charter provides for a classified Board of Directors, with directors (after the expiration of the terms of the initial classified board of directors) serving three-year terms from the year of their respective elections and being subject to removal only for cause and upon the vote of 80% of the voting power of all outstanding capital stock entitled to vote (the "Voting Power"). Second, our charter and bylaws do not generally permit shareholders to call, or require that the Board of Directors call, a special meeting of shareholders. The charter and bylaws also limit the business permitted to be conducted at any such special meeting. In addition, Tennessee law permits action to be taken by the shareholders by written consent only if the action is consented to by holders of the number of shares required to authorize shareholder action and if all shareholders entitled to vote are parties to the written consent. Third, the bylaws establish an advance notice procedure for shareholders to nominate candidates for election as directors or to bring other business before meetings of the shareholders. Only those shareholder nominees who are nominated in accordance with this procedure are eligible for election as directors of Kirkland's, and only such shareholder proposals may be considered at a meeting of shareholders as have been presented to Kirkland's in accordance with the procedure. Finally, the charter provides that the amendment or repeal of any of the foregoing provisions of the charter mentioned previously in this paragraph requires the affirmative vote of at least 80% of the Voting Power. In addition, the bylaws provide that the amendment or repeal by shareholders of any bylaws made by our Board of Directors requires the affirmative vote of at least 80% of the Voting Power. Furthermore, Kirkland's is subject to certain provisions of Tennessee law, including certain Tennessee corporate takeover acts that are, or may be, applicable to us. These acts, which include the Investor Protection Act, the Business Combination Act and

the Tennessee Greenmail Act, seek to limit the parameters in which certain business combinations and share exchanges occur. The charter, bylaws and Tennessee law provisions may have an anti-takeover effect, including possibly discouraging takeover attempts that might result in a premium over the market price for our common stock.

Risks Related to Human Capital
Capital We depend on key personnel, and, if we lose the services of any member of our senior management team, we may not be able to run our business effectively. We have benefited from the leadership and performance of our senior management team. Our success will depend on our ability to retain our current senior management members and to attract and retain qualified personnel in the future. Competition for senior management personnel is intense, and there can be no assurances that we will be able to retain our personnel. Additionally, any failure by us to manage a successful leadership transition of an executive officer and to timely identify a qualified permanent replacement could harm our business and have a material adverse effect on our results of operations. There can also be no assurance that a reduced or less qualified executive team can suitably perform operational responsibilities. Our business depends upon hiring, training and retaining qualified employees. The success of our strategic plans **are is** dependent on our ability to promote and recruit a sufficient number of quality employees in our stores, distribution centers and corporate headquarters. Our workforce costs represent our largest operating expense, and our business is subject to employment laws and regulations, including requirements related to minimum wage and benefits. In addition, the implementation of potential regulatory changes relating to overtime exemptions and benefits for certain employees under federal and state laws could result in increased labor costs to our business and negatively impact our operating results. We cannot be assured that we can continue to hire, train and retain qualified employees at current wage rates since we operate in a competitive labor market, and there is a risk of market increases in compensation. The success of our store strategy depends on our ability to hire, train and retain qualified district managers, store managers and sales associates to support our stores. In addition, the time and effort required to train and supervise a large number of new managers and associates due to seasonal hiring practices or excessive turnover may divert resources from our existing stores and adversely affect our operating and financial performance. We also depend on hiring qualified personnel at our distribution centers, especially during our peak season in the third and fourth quarters leading up to the holiday selling season. Not being able to hire or find temporary qualified help during this season, could lead to bottlenecks in the supply chain and products not arriving timely in stores or directly to customer homes, which could negatively impact sales. Low unemployment rates in the United States, rising wages and competition for qualified talent could result in the failure to attract, motivate and retain personnel. This has resulted in higher employee costs, increased attrition and significant shifts in the labor market and employee expectations. We may continue to face challenges in finding and retaining qualified personnel, which could have an adverse effect on our results of operations, cash flows and financial condition.

Risks Related to Weather
Weather Weather conditions could adversely affect our sales and / or profitability by affecting consumer shopping patterns. Our operating results may be adversely affected by severe or unexpected weather conditions. Adverse weather conditions or other extreme changes in the weather, including resulting electrical and technological failures, may disrupt our business and may adversely affect our ability to sell and distribute products. Frequent or unusual snow, ice or **rain storms rainstorms** or extended periods of unseasonable temperatures in our markets could adversely affect our performance by affecting customer shopping patterns or diminishing demand for seasonal merchandise. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could reduce demand for a portion of our inventory and thereby reduce our sales and profitability.

Risks Related to Macroeconomics
Macroeconomics We are exposed to the risk of natural disasters, pandemic outbreaks, global political events, war and terrorism that could disrupt our business and result in lower sales, increased operating costs and capital expenditures. Our headquarters, store locations, distribution centers and warehouses, as well as certain of our vendors and customers, are located in areas that have been and could be subject to natural disasters such as floods, hurricanes, tornadoes, fires or earthquakes. In addition, we operate in markets that may be susceptible to pandemic outbreaks (**such as COVID-19**), war, terrorist acts or disruptive global political events, such as civil unrest in countries in which our vendors are located or products are manufactured. Our business may be harmed if our ability to sell and distribute products is impacted by any such events, any of which could influence customer trends and purchases and may negatively impact our net sales, properties or operations. Such events could result in physical damage to one or more of our properties, the temporary closure of some or all of our stores or distribution centers, the temporary lack of an adequate work force in a market, temporary or long-term disruption in the transport of goods, delay in the delivery of goods to our distribution centers or stores, disruption of our technology support or information systems, or fuel shortages or dramatic increases in fuel prices and shipping costs, which increase the cost of doing business. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage. Any of these factors, or a combination thereof, could adversely affect our operations. Our performance may be affected by general economic conditions. Our performance is subject to worldwide economic conditions and their impact on levels of discretionary consumer spending. Some of the factors that have had, and may in the future have, an impact on discretionary consumer spending include national or global economic downturns, an increase in consumer debt (and a corresponding decrease in the availability of affordable consumer credit), reductions in net worth based on recent severe market declines, softness in the residential real estate and mortgage markets, changes in taxation, increases in fuel and energy prices, fluctuation in interest rates, low consumer confidence and other macroeconomic factors. Specialty retail is a cyclical industry that is heavily dependent upon the overall level of consumer spending. Purchases of home décor and furnishings tend to be highly correlated with cycles in consumers' disposable income and trends in the housing market. A weak retail environment could impact customer traffic in our stores and also adversely affect our net sales. Because of the seasonality of our business, economic downturns or increased sourcing costs during the last quarter of our fiscal year could adversely affect us to a greater extent than if such downturns occurred at other times of the year. As purchases of home décor and furnishings may decline during recessionary periods, a prolonged recession, including any related decrease in consumers' disposable incomes, may have a material adverse effect on our business, financial condition and results of operations. Should credit markets

tighten or turmoil in the financial markets develop, our ability to access funds, refinance our existing indebtedness, enter into agreements for new indebtedness or obtain funding through the issuance of our securities would be adversely impacted. The impact of any such credit crisis or market turmoil on our major suppliers cannot be accurately predicted. The inability of key suppliers to access liquidity, or the insolvency of key suppliers, could lead to their failure to deliver our merchandise. Worsening economic conditions could also result in difficulties for financial institutions (including bank failures) and other parties with whom we do business, which could potentially impair our ability to access financing under existing arrangements or to otherwise recover amounts as they become due under our other contractual arrangements. Our profitability is vulnerable to inflation and cost increases. Future increases in costs such as the cost of merchandise, shipping rates, freight costs, fuel costs and store occupancy costs may reduce our profitability. These cost increases may be the result of inflationary pressures that could further reduce our sales or profitability. Increases in other operating costs, including changes in energy prices, wage rates and lease and utility costs, may increase our cost of goods sold or operating expenses. Competitive pressures in our industry may have the effect of inhibiting our ability to reflect these increased costs in the prices of our products and therefore reduce our profitability. The market price for our common stock might be volatile and could result in a decline in the value of your investment. The price at which our common stock trades has been and is likely to continue to be highly volatile, and such volatility could expose us to securities class action litigation. The market price of our common stock could be subject to significant fluctuations in response to our operating results, general trends and prospects for the retail industry, announcements by our competitors, analyst recommendations, our ability to meet or exceed analysts' or investors' expectations, the condition of the financial markets and other factors. In addition, the stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These fluctuations, as well as general economic and market conditions, may adversely affect the market price of our common stock, notwithstanding our actual operating performance. Risks Related to Business and Operations Our business is highly seasonal and our fourth quarter contributes to a disproportionate amount of our net sales, net income and cash flow, and any factors negatively impacting us during our fourth quarter could reduce our net sales, net income and cash flow, leaving us with excess inventory and making it more difficult for us to have sufficient working capital or to finance our capital requirements. We have historically experienced, and expect to continue to experience, substantial seasonal fluctuations in our net sales and operating results. We believe this is the general pattern typical of our segment of the retail industry and expect that this pattern will continue in the future. Due to the importance of the fall selling season, which includes Thanksgiving and Christmas, the last quarter of our fiscal year has historically contributed, and is expected to continue to contribute, a disproportionate amount of our net sales, net income and cash flow for the entire fiscal year. Any factors negatively affecting us during the last quarter of our fiscal year, including unfavorable economic or weather conditions, could have a material adverse effect on our financial condition and results of operations, reducing our cash flow, leaving us with excess inventory and making it more difficult for us to have sufficient working capital to continue operations during the first three quarters of the year or to finance our capital requirements. Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of store closings and openings, customer traffic changes, shifts in the timing of certain holidays and competition. Consequently, comparisons between quarters are not necessarily meaningful, and the results for any quarter are not necessarily indicative of future results. Inventory loss and theft and the inability to anticipate inventory needs may result in reduced net sales. We are subject to the risk of inventory loss and theft. We have experienced inventory shrinkage in the past, and we cannot assure that incidences of inventory loss and theft will decrease in the future or that the measures we are taking will effectively reduce the problem of inventory shrinkage. Although some level of inventory shrinkage is an unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft, our financial condition could be affected adversely. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impacts our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely impact our financial results. Though we attempt to reduce these risks, we cannot assure you that we will be successful in our inventory management, which may negatively impact our cash flows and results of operations. Failure to control merchandise returns could negatively impact the business. We have established a provision for estimated merchandise returns based upon historical experience and other known factors. If actual returns are greater than those projected by management, additional reductions of revenue could be recorded in the future. Also, to the extent that returned merchandise is damaged, we may not receive full retail value from the resale of the returned merchandise. Introductions of new merchandise, changes in merchandise mix, associate selling behavior, merchandise quality issues, changes to our return policy, e-commerce return behavior, changes in consumer confidence, or other competitive and general economic conditions may cause actual returns to exceed the provision for estimated merchandise returns. An increase in merchandise returns that exceeds our current provision could negatively impact the business and financial results.