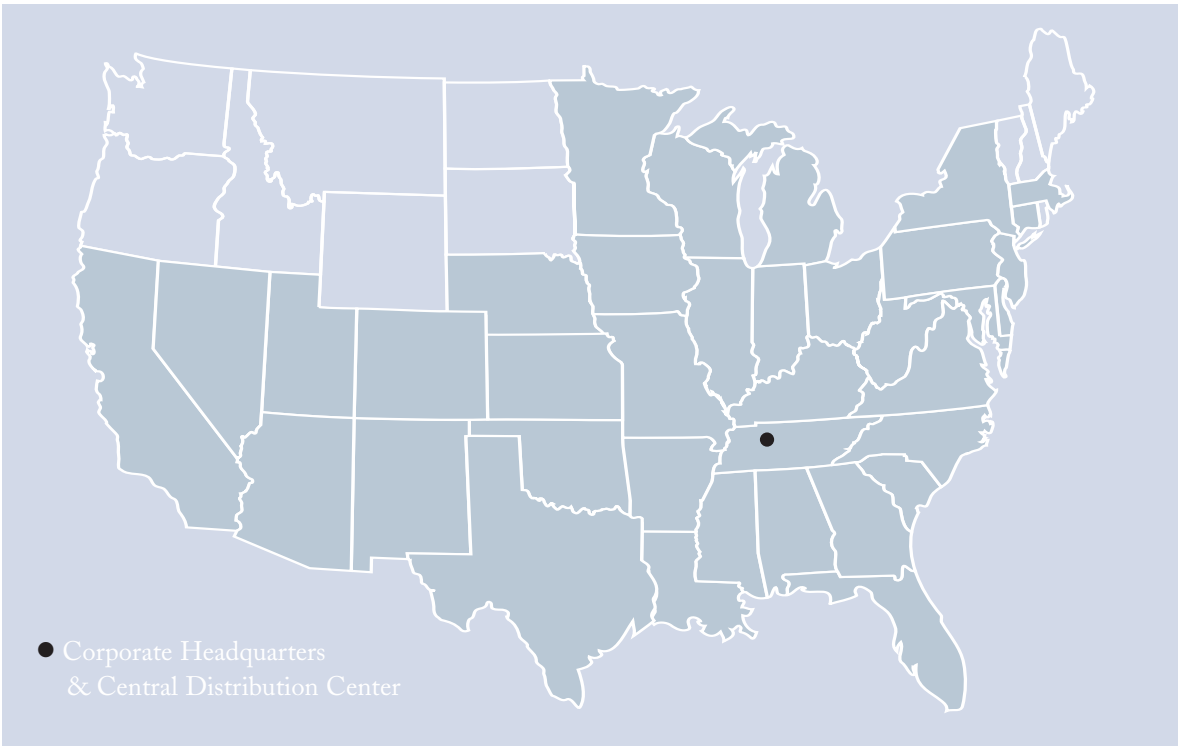


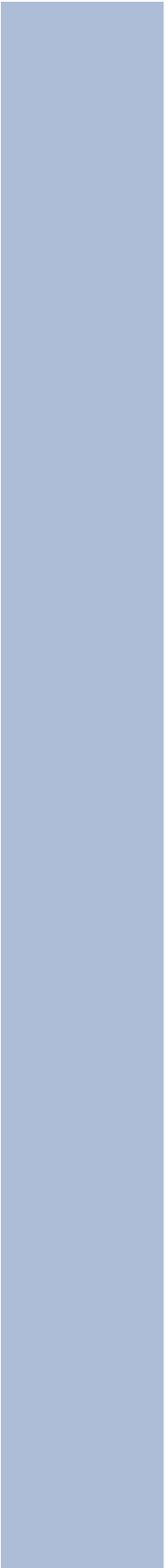


Kirkland's Home

2006 Annual Report



● Corporate Headquarters
& Central Distribution Center





DIRECTORS AND OFFICERS

Directors

R. Wilson Orr, III
*Chairman of the
Board of Directors
General Partner, SSM Partners*

Carl Kirkland
*Founder
Kirkland's, Inc.*

Robert E. Alderson
*Chief Executive Officer
Kirkland's, Inc.*

Steven J. Collins
*Partner
Advent International Corporation*

Gabriel Gomez
*Principal
Advent International Corporation*

David M. Mussafer
*Managing Director
Advent International Corporation*

Ralph T. Parks
*President
RT Parks, Inc.*

Murray M. Spain
*President
World Wide Basics, LLC*

Officers

Robert E. Alderson
Chief Executive Officer

Catherine A. David
President and Chief Operating Officer

Andrew P. Gallina
Vice President of Marketing

Michelle R. Graul
Vice President of Human Resources

Sharyn M. Hejcl
*Vice President of Merchandising and
General Merchandising Manager*

Rob Janes
*Vice President of Information Services and Chief
Information Officer*

Roland L. Mackie
*Senior Vice President of Real Estate
and Development*

W. Michael Madden
*Vice President of Finance and
Chief Financial Officer*

Jeff Ostler
Vice President of Operations and Director of Stores

Lowell E. Pugh II
Vice President, General Counsel and Secretary

Todd E. Smith
Vice President of Finance and Controller

Todd A. Weier
Senior Vice President of Logistics

FELLOW SHAREHOLDERS, GUESTS, AND TEAM MEMBERS:

Fiscal 2006 was a year of tremendous challenge during a period of change at Kirkland's. Our financial results suffered as the home décor sector continued to encounter a difficult sales environment. Customer traffic declines persisted and contributed to lower comparable store sales and earnings. We faced these challenging conditions with a management team in transition throughout the year, making it difficult to regain positive sales and earnings momentum within fiscal 2006. However, we did make progress during the year. With key hires made late in the fiscal year and early in 2007, we believe we have assembled the team that will lead the turnaround of the business.

Improved merchandising performance is still our number one priority and the key to Kirkland's returning to strong financial results. We attract a value-conscious customer who favors "traditional" styling in home décor. During fiscal 2006, we recognized our merchandise assortment was off style and trend, delivered less value, and was too narrowly-focused in coloration and style. In response, we established a focus on three "degrees" of traditional style – formal, updated and soft – designed to broaden our appeal to a wider audience including our existing core customer base. This vision provides a framework for both our merchants and vendors to develop product that is new and different, trend and color right, and provides decorating and gift-giving ideas. While each of the three traditional styles is distinctly different, the various elements work together and allow our guests to mix and match items to fit their personal taste. These changes are reflected in our stores today within three major mer-

chandise sets and four secondary themes. With further refinement, we are confident that our customers will embrace this trend and style-right product as they shop for home décor at affordable prices.

During fiscal 2006, our struggles in merchandising were in execution and specifically in our key item strategy – identifying great items unique to Kirkland's that we can sell in large quantity at great prices. This strategy helps to create customer interest and drive sales while making a powerful visual statement in stores. With a focus on content and style changes, we didn't properly exploit our historic value advantage. Value remains a focus for our customer, and she looks to Kirkland's for great prices. With our merchandising department under the leadership of Sharyn Hejcl and the continued direction of Cathy David, we are optimistic about our ability to meet these challenges in execution and continue the improvement in merchandise content during fiscal 2007.

In stores, our great opportunity is delivering an improved and exciting in-store experience through helpful and friendly interaction with our guests, making them feel welcome and helping them achieve their home decorating goals. We are committed to hiring team members who better reflect our brand and providing them sales-focused training. To lead the stores in this key part of the turnaround effort, we have recently hired Jeff Ostler as our Director of Stores.

Our shift to off-mall real estate continues. We are concentrating efforts to accelerate the closing of mall stores over the next two years. In doing so,

we will prudently deploy our capital in opening stores in off-mall venues where our customers live and shop. The first year return on our new stores remains strong despite the merchandising execution and sector challenges we have encountered. Our off-mall stores are generating better sales volumes and have lower occupancy costs, resulting in better store-level profits. These stores are easier to shop and operate. Most importantly, the off-mall venue is more convenient to our customers and located with desirable co-tenants for the home décor shopper. Our real estate direction is clear; however, we are moderating our growth plans for fiscal 2007 as we focus on improving execution in merchandising and stores. Better merchandise, an improved guest experience, and the right venue will combine to deliver our long-awaited turnaround.

We believe the tasks are challenging, but the goal is very attainable. As a fellow shareholder, I am disappointed with our financial results, but absolutely believe in our opportunity for near-term improvement. We have completed two of the toughest components—establishing the vision and assembling the team to lead it. Better execution will lead us to better results. We look forward to reporting on our progress in the coming year.

Thank you for your continued support and investment in Kirkland's and I hope to see you soon in our stores!

Sincerely,



Robert Alderson
Chief Executive Officer

CORPORATE DATA

Corporate Headquarters

Kirkland's, Inc.
805 North Parkway
Jackson, Tennessee 38305
731/668-2444
www.kirklands.com

Transfer Agent and Registrar

StockTrans, Inc.
44 West Lancaster Avenue
Ardmore, Pennsylvania 19003
610/649-7300
Shareholders seeking information concerning stock transfers, change of address, and lost certificates should contact StockTrans directly.

Independent Auditors

Ernst & Young LLP
Memphis, Tennessee

Corporate Counsel

Pepper Hamilton LLP
Philadelphia, Pennsylvania

Annual Report on Form 10-K

A copy of the Company's fiscal 2006 Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available to shareholders by contacting the Investor Relations Department at the Company's address above.

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:00 p.m. Central Daylight Time on June 4, 2007, at the Crescent Club, 6075 Poplar Avenue, 9th Floor, Memphis, Tennessee.

Safe Harbor

Except for historical information contained herein, the statements in this release are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause Kirkland's actual results to differ materially from forecasted results. Those risks and uncertainties include, among other things, the competitive environment in the home décor industry in general and in Kirkland's specific market areas, inflation, product availability and growth opportunities, seasonal fluctuations, and economic conditions in general. Those and other risks are more fully described in Kirkland's filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K filed on May 2, 2007. Kirkland disclaims any obligation to update any such factors or to publicly announce results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Stock Market Information

The Company's common stock is traded on the NASDAQ Global Market under the symbol KIRK. On April 6, 2007, there were approximately 100 holders of record and 1,600 beneficial owners of the Company's common stock. The following table sets forth, for the periods indicated, the high and low last sale prices of shares of the common stock as reported by NASDAQ:

	High	Low
Fiscal 2006:		
Quarter ended April 29, 2006	\$ 7.74	\$ 4.95
Quarter ended July 29, 2006	\$ 6.88	\$ 5.05
Quarter ended October 28, 2006	\$ 5.25	\$ 4.18
Quarter ended February 3, 2007	\$ 5.64	\$ 4.40
Fiscal 2005:		
Quarter ended April 30, 2005	\$ 11.28	\$ 9.18
Quarter ended July 30, 2005	\$ 9.42	\$ 8.17
Quarter ended October 29, 2005	\$ 9.93	\$ 7.05
Quarter ended January 28, 2006	\$ 7.22	\$ 5.73

Kirkland's

805 North Parkway

Jackson, TN 38305

731/668-2444

www.kirklands.com