KIRKLAND'S, INC
Form 10-Q
December 08, 2011

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**
**FORM 10-Q**

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended October 29, 2011 , or**

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from __________ to__________.**

**Commission file number: 000-49885**
**KIRKLAND S, INC.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Tennessee**<br>(State or other jurisdiction of incorporation or organization) | **62-1287151**<br>(IRS Employer Identification No.) |
| **2501 McGavock Pike, Suite 1000**<br>**Nashville, Tennessee**<br>(Address of principal executive offices) | **37214**<br>(Zip Code) |

Registrant s telephone number, including area code: **(615) 872-4800**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, no par value 19,450,980 shares outstanding as of December 2, 2011.

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**KIRKLAND S, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**
**(in thousands, except share data)**

| | October 29, 2011 | January 29, 2011 | October 30, 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 60,343 | $ 91,222 | $ 58,831 |
| Inventories, net | 59,940 | 44,452 | 56,851 |
| Income taxes receivable | 2,664 | | 3,332 |
| Prepaid expenses and other current assets | 11,176 | 7,468 | 8,321 |
| Deferred income taxes | 2,174 | 3,528 | 4,013 |
| Total current assets | 136,297 | 146,670 | 131,348 |
| Property and equipment, net | 58,366 | 46,231 | 45,125 |
| Non-current deferred income taxes | 2,412 | 1,440 | 3,656 |
| Other assets | 1,176 | 736 | 684 |
| Total assets | $ 198,251 | $ 195,077 | $ 180,813 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 24,975 | $ 20,236 | $ 25,923 |
| Income taxes payable | | 1,289 | |
| Accrued expenses and other | 21,145 | 24,364 | 21,625 |
| Total current liabilities | 46,120 | 45,889 | 47,548 |
| Deferred rent | 30,578 | 27,259 | 27,001 |
| Other liabilities | 4,445 | 3,640 | 3,331 |
| Total liabilities | 81,143 | 76,788 | 77,880 |
| Shareholders equity: | | | |
| Common stock, no par value; 100,000,000 shares authorized; 19,542,449, 19,910,963 and 19,891,346 shares issued and outstanding at October 29, 2011, January 29, 2011 and October 30, 2010, respectively | 149,256 | 146,747 | 145,773 |
| Accumulated deficit | (32,148) | (28,458) | (42,840) |
| Total shareholders equity | 117,108 | 118,289 | 102,933 |
| Total liabilities and shareholders equity | $ 198,251 | $ 195,077 | $ 180,813 |

The accompanying notes are an integral part of these financial statements.

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**KIRKLAND S, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**
**(in thousands, except per share data)**

| | 13-Week Period Ended | | 39-Week Period Ended | |
|---|---|---|---|---|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Net sales | $ 97,071 | $ 92,725 | $ 281,175 | $ 275,694 |
| Cost of sales (exclusive of depreciation as shown below) | 60,938 | 56,732 | 176,109 | 164,243 |
| Gross profit | 36,133 | 35,993 | 105,066 | 111,451 |
| Operating expenses: | | | | |
| Compensation and benefits | 18,828 | 18,337 | 55,187 | 53,228 |
| Other operating expenses | 12,467 | 10,744 | 34,541 | 29,146 |
| Depreciation | 2,914 | 3,146 | 8,888 | 9,294 |
| Total operating expenses | 34,209 | 32,227 | 98,616 | 91,668 |
| Operating income | 1,924 | 3,766 | 6,450 | 19,783 |
| Interest expense, net | 55 | 33 | 125 | 101 |
| Other income, net | (51) | (62) | (126) | (249) |
| Income before income taxes | 1,920 | 3,795 | 6,451 | 19,931 |
| Income tax provision | 673 | 1,516 | 2,514 | 7,882 |
| Net income | $ 1,247 | $ 2,279 | $ 3,937 | $ 12,049 |
| Earnings per share: | | | | |
| Basic | $ 0.06 | $ 0.11 | $ 0.20 | $ 0.61 |
| Diluted | $ 0.06 | $ 0.11 | $ 0.19 | $ 0.59 |
| Weighted average shares for basic earnings per share | 19,918 | 19,889 | 19,930 | 19,839 |
| Effect of dilutive stock equivalents | 286 | 633 | 568 | 749 |
| Adjusted weighted average shares for diluted earnings per share | 20,204 | 20,522 | 20,498 | 20,588 |

The accompanying notes are an integral part of these financial statements.

**KIRKLAND S, INC.**
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)**
**(in thousands, except share data)**

| | Common Stock | | Accumulated | Total Shareholders |
|---|---|---|---|---|
| | Shares | Amount | Deficit | Equity |
| Balance at January 29, 2011 | 19,910,963 | $ 146,747 | $ (28,458) | $ 118,289 |
| Exercise of employee stock options and employee stock purchases | 172,388 | 422 | | 422 |
| Tax benefit from exercise of stock options and vesting of restricted stock | | 1,177 | | 1,177 |
| Net share settlement of stock options and restricted stock | (111,538) | (1,142) | | (1,142) |
| Restricted stock issued | 408,439 | | | |
| Stock-based compensation expense | | 2,382 | | 2,382 |
| Repurchase and retirement of common stock | (837,803) | (330) | (7,627) | (7,957) |
| Net income | | | 3,937 | 3,937 |
| Balance at October 29, 2011 | 19,542,449 | $ 149,256 | $ (32,148) | $ 117,108 |

The accompanying notes are an integral part of these financial statements.

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**KIRKLAND S, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**
**(in thousands)**

| | 39-Week Period Ended October 29, 2011 | | October 30, 2010 | |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Net income | $ | 3,937 | $ | 12,049 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | | |
| Depreciation of property and equipment | | 8,888 | | 9,294 |
| Amortization of landlord construction allowances | | (3,530) | | (4,727) |
| Amortization of debt issue costs | | 33 | | 20 |
| Loss on disposal of property and equipment | | 152 | | 247 |
| Cash received for landlord construction allowances | | 6,849 | | 6,329 |
| Stock-based compensation expense | | 2,382 | | 1,850 |
| Excess tax benefits from exercise of stock options and restricted stock | | (1,177) | | (460) |
| Deferred income taxes | | 382 | | 278 |
| Changes in assets and liabilities: | | | | |
| Inventories, net | | (15,488) | | (17,496) |
| Prepaid expenses and other current assets | | (3,708) | | (3,990) |
| Other noncurrent assets | | (186) | | (64) |
| Accounts payable | | 4,739 | | 10,334 |
| Income taxes payable | | (2,776) | | (9,959) |
| Accrued expenses and other current and noncurrent liabilities | | (2,414) | | (4,025) |
| Net cash used in operating activities | | (1,917) | | (320) |
| **Cash flows from investing activities:** | | | | |
| Disposal of property and equipment | | | | (37) |
| Capital expenditures | | (21,175) | | (17,773) |
| Net cash used in investing activities | | (21,175) | | (17,810) |
| **Cash flows from financing activities:** | | | | |
| Refinancing costs | | (287) | | |
| Excess tax benefits from exercise of stock options and restricted stock | | 1,177 | | 460 |
| Cash used in net share settlement of stock options and restricted stock | | (1,142) | | (239) |
| Exercise of stock options and employee stock purchases | | 422 | | 328 |
| Repurchase and retirement of common stock | | (7,957) | | |
| Net cash provided by (used in) financing activities | | (7,787) | | 549 |
| **Cash and cash equivalents:** | | | | |
| Net decrease | | (30,879) | | (17,581) |
| Beginning of the period | | 91,222 | | 76,412 |
| End of the period | $ | 60,343 | $ | 58,831 |

The accompanying notes are an integral part of these financial statements.

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**KIRKLAND S, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1 Basis of Presentation**

Kirkland s, Inc. (the Company ) is a specialty retailer of home décor with 301 stores in 30 states as of October 29, 2011. The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiaries, Kirkland s Stores, Inc., Kirkland s DC, Inc., Kirkland s Texas, LLC, and Kirklands.com, LLC. Significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the audited financial statements included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2011.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates and assumptions used.

Changes in estimates are recognized in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: impairment assessments on long-lived assets, inventory reserves, self-insurance reserves, income tax liabilities, stock-based compensation, gift certificate and gift card breakage, customer loyalty program accruals and contingent liabilities.

It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than those at fiscal year end. In addition, because of seasonality factors, the results of the Company s operations for the 13-week and 39-week periods ended October 29, 2011 are not indicative of the results to be expected for any other interim period or for the entire fiscal year. The Company s fiscal year ends on the Saturday closest to January 31, resulting in years of either 52 or 53 weeks. All references to a fiscal year refer to the fiscal year ending on the Saturday closest to January 31 of the following year.

**Note 2 Income Taxes**

An estimate of the annual effective tax rate is used at each interim period based on the facts and circumstances available at that time, while the actual effective tax rate is calculated at year-end. For the 13-week period ended October 29, 2011, the Company recorded an income tax expense of 35.1% of income before income taxes. In the prior year period, the Company recorded income tax expense of 40.0% of income before income taxes. For the 39-week period ended October 29, 2011, the Company recorded income tax expense of 39.0% of income before income taxes. In the prior year period, the Company recorded income tax expense of 39.5% of income before income taxes.

**Note 3 Earnings Per Share**

Basic earnings per share is computed by dividing net income or loss by the weighted average number of shares outstanding during each period presented, which excludes non-vested restricted stock. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding plus the dilutive effect of stock equivalents outstanding during the applicable periods using the treasury stock method. Diluted earnings per share reflects the potential dilution that could occur if options to purchase stock were exercised into common stock or restricted stock units became vested. Stock options that would have been antidilutive were not included in the computation of diluted earnings per share. The amount of shares excluded from the computation due to their antidilutive effect were 955,000 and 368,000 for the 13-week periods ended October 29, 2011, and October 30, 2010, and 545,000 and 161,000 for the 39-week periods ended October 29, 2011, and October 30, 2010, respectively.

**Note 4 Commitments and Contingencies**

The Company is party to pending legal proceedings and claims. Although the outcome of such proceedings and claims cannot be determined with certainty, the Company s management is of the opinion that it is unlikely that these proceedings and claims will have a material effect on the financial condition, operating results or cash flows of the Company.

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**Note 5 Stock-Based Compensation**

The Company maintains equity incentive plans under which it may grant non-qualified stock options, incentive stock options, restricted stock units, or stock appreciation rights to employees, non-employee directors and consultants.

The Company granted 172,500 stock options and 89,000 restricted stock units during the 39-week period ended October 29, 2011. This compares to 225,000 stock options and 114,000 restricted stock units granted in the 39-week period ended October 30, 2010. Total stock-based compensation expense (a component of compensation and benefits) was $733,000 for the 13-week period ended October 29, 2011, and $2.4 million for the 39-week period ended October 29, 2011, compared to $798,000 and $1.9 million, respectively, for the comparable prior year periods.

**Note 6 Stock Repurchase Program**

On August 19, 2011, the Company announced that its Board of Directors authorized a stock repurchase plan providing for the purchase in the aggregate of up to $40 million of the Company s outstanding common stock from time to time until February 2013. Through October 29, 2011, the Company had repurchased and retired a total of approximately 838,000 shares at an aggregate cost of $8.0 million. As of October 29, 2011, the Company had $32.0 million remaining under the Board s authorization to repurchase its common stock. Subsequent to October 29, 2011, the Company has repurchased and retired approximately 170,000 shares of common stock at an aggregate cost of $2.0 million.

**Note 7 Related Party Transactions**

In July 2009, the Company entered into an agreement with a related party vendor to purchase merchandise inventory. The vendor is considered a related party for financial reporting purposes because one of its principals is the spouse of the Company s Vice President of Merchandising.

During the third quarter of fiscal 2011 and 2010, purchases from this vendor totaled approximately $7.1 million, or 12% of total merchandise purchases, and $6.0 million, or 11% of total merchandise purchases, respectively. During the 39-week periods ended October 29, 2011, and October 30, 2010, purchases from this vendor totaled approximately $17.0 million, or 11% of total merchandise purchases, and $15.4 million, or 11% of total merchandise purchases, respectively. Payable amounts outstanding to this vendor were approximately $2.2 million and $2.7 million as of October 29, 2011 and October 30, 2010, respectively. The Company s payable terms with this vendor are consistent with the terms offered by other vendors in the ordinary course of business.

**Note 8 Amended Credit Facility**

On August 19, 2011, the Company entered into an Amended and Restated Credit Agreement, dated as of August 19, 2011 (the Credit Agreement ), with Bank of America, N.A. as administrative agent and collateral agent, and the lenders named therein (the Lenders ). The Credit Agreement increases the Company s senior secured revolving credit facility from $45 million to $50 million and extends its maturity date to August 2016. Borrowings under the facility will bear interest at an annual rate equal to LIBOR plus a margin ranging from 175 to 225 basis points with no LIBOR floor. The Company will also pay the banks a fee of 0.375% per annum on the unused portion of the facility.

Pursuant to the Credit Agreement, borrowings are subject to certain customary conditions and contain customary events of default, including, without limitation, failure to make payments, a cross-default to certain other debt, breaches of covenants, breaches of representations and warranties, a change in control, certain monetary judgments and bankruptcy and ERISA events. Upon any such event of default, the principal amount of any unpaid loans and all other obligations under the Credit Agreement may be declared immediately due and payable. The maximum availability under the facility is limited by a borrowing base formula which consists of a percentage of eligible inventory and eligible credit card receivables, less reserves.

Also on August 19, 2011, the Company entered into an Amended and Restated Security Agreement, dated as of August 19, 2011 (the Security Agreement ), with its Lenders. Pursuant to the Security Agreement, the Company pledged and granted to the administrative agent, for the benefit of itself and the secured parties specified therein, a lien on and security interest in all of the rights, title and interest in substantially all of the assets of the Company to secure the payment and performance of the obligations under the Credit Agreement.

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The Company and its subsidiaries entered into the Credit Agreement and the Security Agreement to amend and restate the previous Loan and Security Agreement, dated as of October 4, 2004 (the Loan and Security Agreement ) and amended on August 6, 2007, by and among the Company and its Lenders. The Loan and Security Agreement and the amendment thereto have been previously filed with the Securities Exchange Commission.

## ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward Looking Statements

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide an understanding of our financial condition, change in financial condition, cash flow, liquidity and results of operations. The following MD&A discussion should be read in conjunction with the condensed consolidated financial statements and notes to those statements that appear elsewhere in this Form 10-Q and in the Company s Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect the Company s plans, estimates and beliefs. The Company s actual results could differ materially from those discussed or referred to in the forward-looking statements. Factors that could cause or contribute to any differences include, but are not limited to, those discussed under the caption, Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995 and under Part II, Item 1A Risk Factors .

### General

We are a specialty retailer of home décor in the United States, operating 301 stores in 30 states as of October 29, 2011. Our stores present a broad selection of distinctive merchandise, including framed art, mirrors, wall décor, candles and related items, lamps, decorative accessories, accent furniture, textiles, garden-related accessories and artificial floral products. Our stores also offer an extensive assortment of holiday merchandise during seasonal periods as well as items carried throughout the year suitable for gift-giving. In addition, we sometimes use innovative design and packaging to market home décor items as gifts. We provide our predominantly female customers an engaging shopping experience characterized by a diverse, ever-changing merchandise selection at prices which provide the customer discernable value. Our stores offer a unique combination of style and value that has led to our emergence as a recognized name in home décor and has enabled us to develop a strong customer franchise.

During the 13-week period ended October 29, 2011, we opened 13 new stores and closed six stores. The following table summarizes our stores and square footage under lease by venue type:

| | Stores | | | | Square Footage | | Average Store Size | |
|---|---|---|---|---|---|---|---|---|
| | 10/29/11 | | 10/30/10 | | 10/29/11 | 10/30/10 | 10/29/11 | 10/30/10 |
| Mall | 51 | 17% | 61 | 21% | 255,250 | 292,000 | 5,005 | 4,787 |
| Off-Mall | 250 | 83% | 235 | 79% | 1,783,702 | 1,582,524 | 7,135 | 6,734 |
| Total | 301 | 100% | 296 | 100% | 2,038,952 | 1,874,524 | 6,774 | 6,333 |

### 13-Week Period Ended October 29, 2011 Compared to the 13-Week Period Ended October 30, 2010

*Results of operations.* The table below sets forth selected results of our operations in dollars and expressed as a percentage of net sales for the periods indicated (dollars in thousands):

| | 13-Week Period Ended | | | | | |
|---|---|---|---|---|---|---|
| | October 29, 2011 | | October 30, 2010 | | Change | |
| | $ | % | $ | % | $ | % |
| Net sales | $ 97,071 | 100.0% | $ 92,725 | 100.0% | $ 4,346 | 4.7% |
| Cost of sales | 60,938 | 62.8% | 56,732 | 61.2% | 4,206 | 7.4% |
| Gross profit | 36,133 | 37.2% | 35,993 | 38.8% | 140 | 0.4% |
| Operating expenses: | | | | | | |
| Compensation and benefits | 18,828 | 19.4% | 18,337 | 19.8% | 491 | 2.7% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other operating expenses | 12,467 | 12.8% | 10,744 | 11.6% | 1,723 | 16.0% |
| Depreciation | 2,914 | 3.0% | 3,146 | 3.4% | (232) | (7.4%) |
| Total operating expenses | 34,209 | 35.2% | 32,227 | 34.8% | 1,982 | 6.2% |
| Operating income | 1,924 | 2.0% | 3,766 | 4.1% | (1,842) | (48.9%) |
| Interest expense, net | 55 | 0.1% | 33 | 0.0% | 22 | 66.7% |
| Other income, net | (51) | (0.1%) | (62) | (0.1%) | 11 | (17.7%) |
| Income before income taxes | 1,920 | 2.0% | 3,795 | 4.1% | (1,875) | (49.4%) |
| Income tax provision | 673 | 0.7% | 1,516 | 1.6% | (843) | (55.6%) |
| Net income | $ 1,247 | 1.3% | $ 2,279 | 2.5% | $ (1,032) | (45.3%) |

*Net sales.* Net sales increased 4.7% to $97.1 million for the third fiscal quarter of 2011 compared to $92.7 million for the prior year period. The impact of net new store growth accounted for an increase in sales of $5.3 million. E-Commerce sales of approximately $2 million also contributed to the increase over the prior year. These increases in net sales were offset by a decline in comparable store sales of 3.6%, accounting for a $2.9 million decline versus the prior year quarter. Comparable store sales decreased 2.4% in the prior year period. The comparable store sales decrease was primarily due to a decrease in the number of transactions, partially offset by a slight increase in the average ticket. The decrease in transactions was due to a 3% decrease in customer traffic count and a 1% decline in the conversion rate. The increase in the average ticket was the result of a 3% increase in items per transaction, partly offset by a decline in the average retail selling price. Merchandise categories showing a positive comparable store sales performance were art, furniture, floral, textiles and gift. Merchandise categories contributing most to the comparable store sales decline were alternative wall décor, decorative accessories and frames.

*Gross profit*. Gross profit as a percentage of total revenue decreased from 38.8% in the third quarter of 2010 to 37.2% in the third quarter of 2011. Merchandise margins decreased from 53.7% in the third quarter of fiscal 2010 to 53.4% in the third quarter of fiscal 2011. Merchandise margin is calculated as net sales minus product cost of sales (including inbound freight), inventory shrinkage, and loyalty reward program expense. Merchandise margin excludes outbound freight, store occupancy and central distribution costs. The decrease in merchandise margin during the third quarter of 2011 was due to higher rates of promotional activity and markdowns partially offset by lower ocean freight costs. Store occupancy costs as a percentage of net sales increased 0.4% versus the prior year quarter. This increase resulted primarily from the decline in comparable store sales and a reduction in the number of renegotiated leases versus the prior year. Outbound freight costs and central distribution expenses increased 0.9% as a percentage of sales primarily due to comparable store sales deleverage and an increase in diesel fuel costs as well as shipping and packaging costs associated with E-commerce, which went live during the fourth quarter of fiscal 2010.

*Compensation and benefits.* At the store-level and corporate level, the compensation and benefits expense ratio decreased for the third quarter of fiscal 2011 as compared to the third quarter of fiscal 2010 primarily due to lower store and corporate bonus accruals as well as a decrease in stock compensation expense.

*Other operating expenses*. Other operating expenses increased as a percentage of net sales for the third quarter of fiscal 2011. This was primarily the result of negative comparable store sales performance as well as increases in marketing and information technology-related expenses in the third quarter of fiscal 2011 as compared to the prior year period.

*Depreciation.* The decrease in depreciation as a percentage of sales versus the prior year quarter reflects the impact of lease extensions during the preceding twelve months for store locations in which the majority of the fixed assets had been fully depreciated.

*Income tax expense.* We recorded an income tax expense of approximately $673,000, or 35.1% of pre-tax income during the third quarter of fiscal 2011, versus income tax expense of approximately $1.5 million, or 40.0% of pre-tax income, in the prior year quarter.

*Net income and earnings per share.* As a result of the foregoing, we reported net income of $1.2 million, or $0.06 per diluted share, for the third quarter of fiscal 2011 as compared to net income of $2.3 million, or $0.11 per share, for the third quarter of fiscal 2010.