BUCKLE INC
Form 10-Q
June 10, 2010
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q<br>x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended May 1, 2010

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from $\qquad$ to $\qquad$
Commission File Number: 001-12951

THE BUCKLE, INC.
(Exact name of Registrant as specified in its charter)

Nebraska
(State or other jurisdiction of incorporation or organization)

47-0366193
(I.R.S. Employer

Identification No.)

2407 West 24th Street, Kearney, Nebraska 68845-4915
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (308) 236-8491
Securities registered pursuant to Section 12(b) of the Act:
Title of class Name of Each Exchange on Which Registered
Common Stock, \$. 01 par value
New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None
(Former name, former address, and former fiscal year if changed since last report)
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 p No "

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 during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files). Yes
" No ${ }^{*}$

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act).
p Large accelerated filer; " Accelerated filer; " Non-accelerated filer; " Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes " No p
The number of shares outstanding of the Registrant's Common Stock, as of May 28, 2010, was 46,730,695.

THE BUCKLE, INC.

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THE BUCKLE, INC.

## BALANCE SHEETS

(Amounts in Thousands Except Share and Per Share Amounts)
(Unaudited)


| Additional paid-in capital | 82,032 | 78,837 |
| :--- | ---: | ---: |
| Retained earnings | 296,524 | 275,751 |
| Accumulated other comprehensive loss | $(759)$ | $(793)$ |
| Total stockholders' equity | 378,264 | 354,259 |
|  | $\$ 508,594$ | $\$ 488,903$ |

See notes to unaudited condensed financial statements.

THE BUCKLE, INC.

## STATEMENTS OF INCOME

(Amounts in Thousands Except Per Share Amounts)
(Unaudited)

|  |  | Thirteen W <br> May 1, <br> 2010 | eek | Ended <br> May 2, <br> 2009 |
| :---: | :---: | :---: | :---: | :---: |
| SALES, Net of returns and allowances | \$ | 214,797 | \$ | 199,697 |
| COST OF SALES (Including buying, distribution, and occupancy costs) |  | 121,346 |  | 112,994 |
| Gross profit |  | 93,451 |  | 86,703 |
| OPERATING EXPENSES: |  |  |  |  |
| Selling |  | 39,843 |  | 37,597 |
| General and administrative |  | 7,421 |  | 7,378 |
|  |  | 47,264 |  | 44,975 |
| INCOME FROM OPERATIONS |  | 46,187 |  | 41,728 |
|  |  |  |  |  |
| OTHER INCOME, Net |  | 1,833 |  | 910 |
|  |  |  |  |  |
| INCOME BEFORE INCOME TAXES |  | 48,020 |  | 42,638 |
|  |  |  |  |  |
| PROVISION FOR INCOME TAXES |  | 17,910 |  | 15,776 |
|  |  |  |  |  |
| NET INCOME | \$ | 30,110 | \$ | 26,862 |
|  |  |  |  |  |
| EARNINGS PER SHARE: |  |  |  |  |
| Basic | \$ | 0.65 | \$ | 0.59 |
|  |  |  |  |  |
| Diluted | \$ | 0.64 | \$ | 0.58 |
| Basic weighted average shares |  | 46,053 |  | 45,529 |
| Diluted weighted average shares |  | 46,993 |  | 46,521 |

See notes to unaudited condensed financial statements.
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## THE BUCKLE, INC.

## STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollar Amounts in Thousands Except Share and Per Share Amounts)
(Unaudited)

|  | Number of Shares | Common Stock |  | Additional Paid-in Capital |  | Retained Earnings |  | Accumulated Other <br> Comprehensive Loss |  |  | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| FISCAL 2010 |  |  |  |  |  |  |  |  |  |  |  |
| BALANCE, January 31, 2010 | 46,381,263 | \$ | 464 | \$ | 78,837 | \$ | 275,751 | \$ | (793) | \$ | 354,259 |
| Net income |  |  |  |  |  |  | 30,110 |  |  |  | 30,110 |
| Dividends paid on common stock, <br> (\$0.20 per share) |  |  | - |  | - |  | $(9,337)$ |  | - |  | $(9,337)$ |
| Common stock issued on exercise of stock options | 101,463 |  | 1 |  | 470 |  | - |  | - |  | 471 |
| Issuance of non-vested stock, net of forfeitures | 243,765 |  | 2 |  | (2) |  | - |  | - |  | - |
| Amortization of non-vested stock grants, net of forfeitures | - |  | - |  | 1,500 |  | - |  | - |  | 1,500 |
| Stock option compensation expense | - |  | - |  | 16 |  | - |  | - |  | 16 |
| Income tax benefit related to exercise of stock options | - |  | - |  | 1,211 |  | - |  | - |  | 1,211 |
| Unrealized loss on investments, net of tax | - |  | - |  | - |  | - |  | 34 |  | 34 |
| BALANCE, May 1, 2010 | 46,726,491 | \$ | 467 | \$ | 82,032 | \$ | 296,524 | \$ | (759) | \$ | 378,264 |
| FISCAL 2009 |  |  |  |  |  |  |  |  |  |  |  |
| BALANCE, February 1, 2009 | 45,906,265 | \$ | 459 | \$ | 68,894 | \$ | 268,789 | \$ | (920) | \$ | 337,222 |
| Net income | - |  | - |  | - |  | 26,862 |  | - |  | 26,862 |
| Dividends paid on common stock, <br> (\$0.20 per share) |  |  | - |  | - |  | $(9,222)$ |  | - |  | $(9,222)$ |
| Common stock issued on exercise of stock options | 2,337 |  | - |  | 18 |  | - |  | - |  | 18 |
| Issuance of non-vested stock, net of forfeitures | 200,053 |  | 2 |  | (2) |  | - |  | - |  | - |


| Amortization of non-vested stock grants, net of forfeitures | - |  | - |  | 1,225 |  |  |  | - |  | 1,225 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Stock option compensation expense | - |  | - |  | 40 |  |  |  | - |  | 40 |
| Unrealized loss on investments, net of tax |  |  | - |  | - |  |  |  | (18) |  | (18) |
| BALANCE, May 2, 2009 | 46,108,655 |  | 461 | \$ | 70,175 | \$ | 286,429 | \$ | (938) |  | 6,127 |

See notes to unaudited condensed financial statements.

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THE BUCKLE, INC.
STATEMENTS OF CASH FLOWS
(Dollar Amounts in Thousands)
(Unaudited)


# $\begin{array}{lll}\text { CASH AND CASH EQUIVALENTS, Beginning of period } & 135,340 & 162,463\end{array}$ 

CASH AND CASH EQUIVALENTS, End of period
\$ 131,417 \$ 170,907
See notes to unaudited condensed financial statements.

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## NOTES TO FINANCIAL STATEMENTS

THIRTEEN WEEKS ENDED MAY 1, 2010 AND MAY 2, 2009
(Dollar Amounts in Thousands Except Share and Per Share Amounts)
(Unaudited)
1.

Management Representation
The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the results of operations for the interim periods have been included. All such adjustments are of a normal recurring nature. Because of the seasonal nature of the business, results for interim periods are not necessarily indicative of a full year's operations. The accounting policies followed by the Company and additional footnotes are reflected in the financial statements for the fiscal year ended January 30, 2010, included in The Buckle, Inc.'s 2009 Form 10-K.

The Company follows generally accepted accounting principles ("GAAP") established by the Financial Accounting Standards Board ("FASB"). References to GAAP in these notes are to the FASB Accounting Standards Codification ("ASC"), which was established by FASB as the sole source of authoritative GAAP for financial statements issued for reporting periods ending on or after September 15, 2009.

## 2. <br> Description of the Business

The Company is a retailer of medium to better priced casual apparel, footwear, and accessories for fashion conscious young men and women. The Company operates its business as one reportable industry segment. The Company had 412 stores located in 41 states throughout the continental United States as of May 1, 2010 and 392 stores in 40 states as of May 2, 2009. During the first quarter of fiscal 2010, the Company opened eleven new stores and substantially remodeled three stores. During the first quarter of fiscal 2009, the Company opened six new stores, substantially remodeled six stores, and closed one store.

The following is information regarding the Company's major product lines, stated as a percentage of the Company's net sales:

|  | Thirteen Weeks Ended |  |  |
| :--- | :---: | :---: | :---: |
| May 1, 2010 | May 2, 2009 |  |  |
| Merchandise Group |  |  |  |
| Denims | $45.4 \%$ | $41.7 \%$ |  |
| Tops (including sweaters) | 32.9 | 36.5 |  |
| Sportswear/Fashions | 8.4 | 8.4 |  |
| Accessories | 6.5 | 7.2 |  |
| Footwear | 5.3 | 4.8 |  |
| Outerwear | 0.9 | 0.8 |  |
| Casual bottoms | 0.5 | 0.5 |  |
| Other | 0.1 | 0.1 |  |
|  | $100.0 \%$ | $100.0 \%$ |  |

## Net Earnings Per Share

Basic earnings per share data are based on the weighted average outstanding common shares during the period. Diluted earnings per share data are based on the weighted average outstanding common shares and the effect of all dilutive potential common shares, including stock options.


The following is a summary of investments as of May 1, 2010:

|  | Amortized <br> Cost or <br> Par Value |  | Gross Unrealized Gains |  | Gross <br> Unrealized <br> Losses |  | Other-thanTemporary Impairment |  | Estimated <br> Fair <br> Value |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Available-for-Sale Securities: |  |  |  |  |  |  |  |  |  |  |
| Auction-rate securities | \$ | 23,800 | \$ | - | \$ | $(1,205)$ | \$ | (725) | \$ | 21,870 |
| Municipal bonds |  | 8,483 |  | 13 |  | (13) |  | - |  | 8,483 |
| Preferred stock |  | 2,000 |  | - |  |  |  | $(1,974)$ |  | 26 |
|  | \$ | 34,283 | \$ | 13 | \$ | $(1,218)$ | \$ | $(2,699)$ | \$ | 30,379 |
| Held-to-Maturity Securities: |  |  |  |  |  |  |  |  |  |  |
| State and municipal bonds | \$ | 56,416 | \$ | 506 | \$ | (25) | \$ | - | \$ | 56,897 |
| Fixed maturities |  | 8,870 |  | 80 |  | - |  | - |  | 8,950 |
| Certificates of deposit |  | 1,275 |  | 20 |  | - |  | - |  | 1,295 |
| U.S. treasuries |  | 500 |  | - |  | - |  | - |  | 500 |
|  | \$ | 67,061 | \$ | 606 | \$ | (25) | \$ | - | \$ | 67,642 |
|  |  |  |  |  |  |  |  |  |  |  |
| Trading Securities: |  |  |  |  |  |  |  |  |  |  |
| Mutual funds | \$ | 7,217 | \$ | 6 | \$ | - | \$ | - | \$ | 7,223 |

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The following is a summary of investments as of January 30, 2010:

|  | Amortized <br> Cost or <br> Par Value | Gross <br> Unrealized <br> Gains | Gross <br> Unrealized <br> Losses | Other-than- <br> Temporary <br> Impairment | Estimated <br> Fair <br> Value |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Available-for-Sale Securities: | $\$$ | 24,775 | $\$$ | - | $\$$ | $(1,258)$ | $\$$ | $(725)$ |

The auction-rate securities and preferred stock were invested as follows as of May 1, 2010:

| Nature | Underlying Collateral | Par Value |  |
| :--- | :--- | :--- | ---: |
|  | $92 \%$ insured by AAA/AA/A-rated bond insurers at May |  | 11,650 |
| Municipal revenue bonds | 1,2010 | $\$$ |  |
|  | Fixed income instruments within issuers' money market |  | 8,400 |
| Municipal bond funds | funds |  | 3,750 |
| Student loan bonds | Student loans guaranteed by state entities | 2,000 |  |
| Preferred stock | Underlying investments of closed-end funds | $\$$ | 25,800 |

As of May 1, 2010, the Company's auction-rate securities portfolio was 55\% AAA/Aaa-rated, $28 \%$ AA/Aa-rated, $10 \%$ A-rated, and 7\% below A-rated.

The amortized cost and fair value of debt securities by contractual maturity as of May 1, 2010 is as follows:

|  | Amortized <br> Cost | Fair <br> Value |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Available-for-sale securities | $\$$ | 3,353 | $\$$ | 3,353 |
| Less than 1 year |  | 1,179 | 1,179 |  |
| $1-5$ years | 1,457 | 1,457 |  |  |
| $5-10$ years | 2,494 | 2,494 |  |  |
| Greater than 10 years | $\$$ | 8,483 | $\$$ | 8,483 |
|  |  |  |  |  |
| Held-to-maturity securities | $\$$ | 18,234 | $\$$ | 18,322 |
| Less than 1 year |  | 46,865 | 47,286 |  |

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| $5-10$ years |  | 1,116 | 1,171 |
| :--- | ---: | ---: | ---: |
| Greater than 10 years | 846 | 863 |  |
|  | $\$$ | 67,061 | $\$$ |

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At May 1, 2010 and January 30, 2010, $\$ 25,726$ and $\$ 26,634$ of available-for-sale securities and $\$ 48,827$ and $\$ 40,179$ of held-to-maturity securities are classified in long-term investments. Trading securities are held in a Rabbi Trust, intended to fund the Company's deferred compensation plan, and are classified in long-term investments.

The Company's investments in auction-rate securities ("ARS") and preferred securities are classified as available-for-sale and reported at fair market value. As of May 1, 2010, the reported investment amount is net of $\$ 1,205$ of temporary impairment and $\$ 2,699$ of other-than-temporary impairment ("OTTI") to account for the impairment of certain securities from their stated par value. The $\$ 1,205$ temporary impairment is reported, net of tax, as an "accumulated other comprehensive loss" of $\$ 759$ in stockholders' equity as of May 1, 2010. For the investments considered temporarily impaired, the Company believes that these ARS can be successfully redeemed or liquidated through future auctions at par value plus accrued interest. The Company believes it has the ability and maintains its intent to hold these investments until such recovery of market value occurs; therefore, the Company believes the current lack of liquidity has created the temporary impairment in valuation.

As of May 1, 2010, the Company had $\$ 23,800$ invested in ARS and $\$ 2,000$ invested in preferred securities, at par value, which are reported at their estimated fair value of $\$ 21,870$ and $\$ 26$, respectively. As of January 30, 2010, the Company had $\$ 24,775$ invested in ARS and $\$ 2,000$ invested in preferred securities, which were reported at their estimated fair value of $\$ 22,792$ and $\$ 26$, respectively. ARS have a long-term stated maturity, but are reset through a "dutch auction" process that occurs every 7 to 49 days, depending on the terms of the individual security. Until February 2008, the ARS market was highly liquid. During February 2008, however, a significant number of auctions related to these securities failed, meaning that there was not enough demand to sell the entire issue at auction. The failed auctions have limited the current liquidity of certain of the Company's investments in ARS and the Company has reason to believe that certain of the underlying issuers of its ARS are currently at risk. The Company does not, however, anticipate that further auction failures will have a material impact on the Company's ability to fund its business. During the first quarter of fiscal 2010, the Company was able to successfully liquidate $\$ 975$ of its investments in ARS at par value. The Company reviews all investments for OTTI at least quarterly or as indicators of impairment exist. Indicators of impairment include the duration and severity of decline in market value. In addition, the Company considers qualitative factors including, but not limited to, the financial condition of the investee, the credit rating of the investee, and the current and expected market and industry conditions in which the investee operates.

As of May 1, 2010, $\$ 1,300$ of the Company's investment in ARS and preferred securities was classified in short-term investments, due to known or anticipated subsequent redemptions, and \$20,596 was classified in long-term investments. As of January 30, 2010, $\$ 1,350$ of the Company's investment in ARS and preferred securities was classified in short-term investments and $\$ 21,468$ was classified in long-term investments.

## 5.

## Fair Value Measurements

As defined by FASB ASC 820, Fair Value Measurements and Disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:
-Level 1 - Quoted market prices in active markets for identical assets or liabilities. Short-term and long-term investments with active markets or known redemption values are reported at fair value utilizing Level 1 inputs.

- Level 2 - Observable market-based inputs (either directly or indirectly) such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or inputs that are corroborated by market data.
- 

Level 3 - Unobservable inputs that are not corroborated by market data and are projections, estimates, or interpretations that are supported by little or no market activity and are significant to the fair value of the assets. The Company has concluded that certain of its ARS represent Level 3 valuation and should be valued using a discounted cash flow analysis. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, timing and amount of cash flows, and expected holding periods of the ARS.

As of May 1, 2010 and January 30, 2010, the Company held certain assets that are required to be measured at fair value on a recurring basis including available-for-sale and trading securities. The Company's available-for-sale securities include its investments in ARS, as further described in Note 4. The failed auctions, beginning in February 2008, related to certain of the Company's investments in ARS have limited the availability of quoted market prices. The Company has determined the fair value of its ARS using Level 1 inputs for known or anticipated subsequent redemptions at par value, Level 2 inputs using observable inputs, and Level 3 using unobservable inputs where the following criteria were considered in estimating fair value:

| - $\quad$Pricing was provided by the custodian of ARS; <br> - <br> Pricing was provided by a third-party broker for ARS; <br> - $\quad$ Sales of similar securities; |
| :--- |
| - $\quad$Quoted prices for similar securities in active markets; <br> Quoted prices for publicly traded preferred securities; |

- Quoted prices for similar assets in markets that are not active - including markets where there are few transactions for the asset, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;

Pricing was provided by a third-party valuation consultant (using Level 3 inputs).
In addition, the Company considers other factors including, but not limited to, the financial condition of the investee, the credit rating, insurance, guarantees, collateral, cash flows, and the current and expected market and industry conditions in which the investee operates. Management believes it has used information that was reasonably obtainable in order to complete its valuation process and determine if the Company's investments in ARS had incurred any temporary and/or other-than-temporary impairment as of May 1, 2010 and January 30, 2010.

Future fluctuations in fair value of ARS that the Company judges to be temporary, including any recoveries of previous write-downs, would be recorded as an adjustment to "accumulated other comprehensive loss." The value and liquidity of ARS held by the Company may be affected by continued auction-rate failures, the credit quality of each security, the amount and timing of interest payments, the amount and timing of future principal payments, and the probability of full repayment of the principal. Additional indicators of impairment include the duration and severity of the decline in market value. The interest rates on these investments will be determined by the terms of each individual ARS. The material risks associated with the ARS held by the Company include those stated above as well as the current economic environment, downgrading of credit ratings on investments held, and the volatility of the entities backing each of the issues.

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements of FASB ASC 820 were as follows:


| January 30, 2010 | (Level 1) | (Level 2) | (Level 3) | Total |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Available-for-Sale Securities | $\$$ | 1,261 | $\$$ | 12,894 | $\$$ | 8,637 | $\$$ | 22,792 |
| $\quad$ Auction-rate securities |  | 8,116 |  | - |  | - | 8,116 |  |
| Municipal bonds | 26 |  | - |  | - | 26 |  |  |
| Preferred stock |  |  |  |  |  |  |  |  |
| Trading Securities (including mutual <br> funds) |  | 5,957 |  | - |  | - | 5,957 |  |
| Totals | $\$$ | 15,360 | $\$$ | 12,894 | $\$$ | 8,637 | $\$$ | 36,891 |

ARS, municipal bonds, and preferred securities included in Level 1 represent securities which have a known or anticipated upcoming redemption as of the reporting date and those that have publicly traded quoted prices. ARS included in Level 2 represent securities which have not experienced a successful auction subsequent to the end of fiscal 2007. The fair market value for these securities was determined by applying a discount to par value based on auction prices for similar securities and by utilizing a discounted cash flow model, using market-based inputs, to determine fair value. The Company used a discounted cash flow model to value its Level 3 investments, using estimates regarding recovery periods, yield, and liquidity. The assumptions used are subjective based upon management's judgment and views on current market conditions, and resulted in $\$ 716$ of the Company's recorded temporary impairment and $\$ 725$ of the OTTI as of May 1, 2010. The use of different assumptions would result in a different valuation and related temporary impairment charge.

Changes in the fair value of the Company's financial assets measured at fair value on a recurring basis as defined in FASB ASC 820 are as follows:

|  | Level 1 |  | Level 2 |  | Level 3 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance, beginning of year | \$ | 15,360 | \$ | 12,894 | \$ | 8,637 |
| Total gains or losses (realized and unrealized): |  |  |  |  |  |  |
| Included in net income |  | 251 |  | - |  |  |
| Included in other comprehensive income |  | 6 |  | 28 |  |  |
| Purchases, sales, issuances, and settlements (net) |  | 1,382 |  | (928) |  | (28) |
| Transfers in and/or out |  | - |  | - |  | - |
| Balance, end of quarter | \$ | 16,999 | \$ | 11,994 | \$ | 8,609 |

Thirteen Weeks Ended May 2, 2009

|  | Level 1 |  | Level 2 |  | Level 3 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance, beginning of year | \$ | 6,240 | \$ | 21,468 | \$ | 7,260 |
| Total gains or losses (realized and unrealized): |  |  |  |  |  |  |
| Included in net income |  | - |  | - |  |  |
| Included in other comprehensive income |  | - |  | (18) |  | - |
| Purchases, sales, issuances, and settlements (net) |  | 1,351 |  | $(1,829)$ |  |  |
| Transfers in and/or out |  | - |  | - |  | - |
| Balance, end of quarter | \$ | 7,591 | \$ | 19,621 | \$ | 7,260 |

Comprehensive income consists of net income and unrealized gains and losses on available-for-sale securities. Unrealized losses on the Company's investments in auction-rate securities have been included in accumulated other comprehensive loss and are separately included as a component of stockholders' equity, net of related income taxes.

|  | Thirteen Weeks Ended |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: |
|  | May 1, 2010 | May 2, 2009 |  |  |
|  | $\$$ | 30,110 | $\$$ | 26,862 |
| Net income <br> Changes in net unrealized losses on investments <br> in auction-rate-securities, net of taxes of $\$(20)$ and $\$ 11$ |  | 34 |  | (18) |
| Comprehensive income | $\$$ | 30,144 | $\$$ | 26,844 |

7. 

Supplemental Cash Flow Information
The Company had non-cash investing activities during the thirteen week periods ended May 1, 2010 and May 2, 2009 of $\$ 2,234$ and $\$(937)$, respectively. The non-cash investing activity relates to unpaid purchases of property, plant, and equipment included in accounts payable as of the end of the quarter. Amounts reported as unpaid purchases are recorded as cash outflows from investing activities for purchases of property, plant, and equipment in the statement of cash flows in the period they are paid.

Additional cash flow information for the Company includes cash paid for income taxes during the thirteen week periods ended May 1, 2010 and May 2, 2009 of $\$ 1,919$ and $\$ 6,085$, respectively.
8.

Stock-Based Compensation
The Company has several stock option plans which allow for granting of stock options to employees, executives, and directors. The options are in the form of non-qualified stock options and are granted with an exercise price equal to the market value of the Company's common stock on the date of grant. The options generally expire ten years from the date of grant. The Company also has a restricted stock plan that allows for the granting of non-vested shares of common stock to employees and executives and a restricted stock plan that allows for the granting of non-vested shares of common stock to non-employee directors.

As of May 1, 2010, 641,748 shares were available for grant under the various stock option plans, of which 452,111 were available for grant to executive officers. Also as of May 1, 2010, no shares were available for grant under the Company's 2005 Restricted Stock Plan and 65,624 shares were available for grant under the Company's 2008 Director Restricted Stock Plan. On February 9, 2010, 230,400 shares of non-vested stock were granted under the 2005 Restricted Stock Plan while only 129,248 shares were available for grant. Thus, the grants were made subject to shareholder approval at the Company's 2010 Annual Meeting of an increase in the number of shares authorized for issuance under the plan from $1,200,000$ shares to $1,700,000$ shares.

The Company accounts for stock-based compensation in accordance with FASB ASC 718, Compensation-Stock Compensation. Compensation expense was recognized during the first quarter of fiscal 2010 and fiscal 2009 for new awards, based on the grant date fair value, as well as for the portion of awards granted in fiscal years prior to FASB ASC 718 adoption that was not vested as of the beginning of fiscal 2006. The fair value of stock options is determined using the Black-Scholes option pricing model, while the fair value of grants of non-vested common stock awards is the stock price on the date of grant.

Information regarding the impact of stock-based compensation expense is as follows:

|  | Thirteen Weeks Ended |  |  |  |
| :--- | ---: | ---: | ---: | ---: |
|  | May 1, 2010 | May 2, 2009 |  |  |
| Stock-based compensation expense, before tax: | $\$$ | 16 | $\$$ | 40 |
| $\quad$ Stock options |  | 1,500 | 1,225 |  |
| $\quad$ Non-vested shares of common stock | $\$$ | 1,516 | $\$$ | 1,265 |
| Total stock-based compensation expense, before tax | $\$$ | 955 | $\$$ | 797 |

FASB ASC 718 requires the benefits of tax deductions in excess of the compensation cost recognized for stock options exercised during the period to be classified as financing cash inflows. This amount is shown as "excess tax benefit from stock option exercises" on the statements of cash flows. For the fiscal quarters ended May 1, 2010 and May 2, 2009, the excess tax benefit realized from exercised stock options was $\$ 1,169$ and $\$ 16$, respectively.

No stock options were granted during fiscal 2010 or fiscal 2009. On September 21, 2009, the Board of Directors authorized a $\$ 1.80$ per share special one-time cash dividend to be paid on October 27, 2009 to shareholders of record at the close of business on October 15, 2009. To preserve the intrinsic value for option holders, the Board also approved, pursuant to the terms of the Company's various stock option plans, a proportional adjustment to both the exercise price and the number of shares covered by each award for all outstanding stock options. This adjustment did not result in any incremental compensation expense.

A summary of the Company's stock-based compensation activity related to stock options for the fiscal quarter ended May 1, 2010 is as follows:

|  | Shares |  | Weighted <br> Average Exercise Price | Weighted Average Remaining Contractual Life |  | egate <br> nsic <br> lue |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Outstanding - beginning of year | 1,352,111 | \$ | 5.02 |  |  |  |
| Granted |  |  |  |  |  |  |
| Expired/forfeited | - |  |  |  |  |  |
| Exercised | $(101,463)$ |  | 4.65 |  |  |  |
| Outstanding - end of quarter | 1,250,648 | \$ | 5.05 | 3.10years | \$ | 38,934 |
| Exercisable - end of quarter | 1,243,877 | \$ | 4.94 | 3.07years | \$ | 38,853 |

The total intrinsic value of options exercised during the fiscal quarters ended May 1, 2010 and May 2, 2009 was $\$ 3,332$ and $\$ 52$, respectively. As of May 1, 2010, there was $\$ 48$ of unrecognized compensation expense related to non-vested stock options. It is expected that this expense will be recognized over a weighted average period of approximately 0.75 years.

Non-vested shares of common stock granted during the first quarter of fiscal 2010 and fiscal 2009 were granted pursuant to the Company's 2005 Restricted Stock Plan and the Company's 2008 Director Restricted Stock Plan. Shares granted under the 2005 Plan typically vest over a period of four years, only upon certification by the Compensation Committee of the Board of Directors that the Company has achieved its pre-established performance targets for the fiscal year. Shares granted under the 2008 Director Plan vest $25 \%$ on the date of grant and then in equal portions on each of the first three anniversaries of the date of grant.

A summary of the Company's stock-based compensation activity related to grants of non-vested shares of common stock for the fiscal quarter ended May 1, 2010 is as follows:

Weighted Average<br>Grant Date<br>Shares Fair Value

| Non-Vested - beginning of year | 405,345 | $\$$ | 23.29 |
| :--- | :---: | :---: | :---: |
| Granted | 243,900 | 28.53 |  |
| Forfeited | $(135)$ | 26.20 |  |
| Vested | $(51,516)$ | 21.75 |  |
| Non-Vested - end of quarter | 597,594 | $\$$ | 25.56 |

As of May 1,2010 , there was $\$ 9,105$ of unrecognized compensation expense related to grants of non-vested shares. It is expected that this expense will be recognized over a weighted average period of approximately 2.2 years. The total fair value of shares vested during the fiscal quarters ended May 1, 2010 and May 2, 2009 was $\$ 1,871$ and $\$ 1,386$, respectively.

## 9.

## Recently Issued Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The new disclosures about fair value measurements are presented in Note 5 to these financial statements, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. The adoption of this statement had no effect on the Company's financial position or results of operations.

## THE BUCKLE, INC. <br> MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Financial Statements and notes thereto of the Company included in this Form 10-Q. The following is management's discussion and analysis of certain significant factors which have affected the Company's financial condition and results of operations during the periods included in the accompanying financial statements.

## EXECUTIVE OVERVIEW

Company management considers the following items to be key performance indicators in evaluating Company performance.

Comparable Store Sales - Stores are deemed to be comparable stores if they were open in the prior year on the first day of the fiscal period being presented. Stores which have been remodeled, expanded, and/or relocated, but would otherwise be included as comparable stores, are not excluded from the comparable store sales calculation. Online sales are excluded from comparable store sales. Management considers comparable store sales to be an important indicator of current Company performance, helping leverage certain fixed costs when results are positive. Negative comparable store sales results could reduce net sales and have a negative impact on operating leverage, thus reducing net earnings.

Merchandise Margins - Management evaluates the components of merchandise margin including initial markup and the amount of markdowns during a period. Any inability to obtain acceptable levels of initial markups or any significant increase in the Company's use of markdowns could have an adverse effect on the Company's gross margin and results of operations.

Operating Margin - Operating margin is a good indicator for management of the Company's success. Operating margin can be positively or negatively affected by comparable store sales, merchandise margins, occupancy costs, and the Company's ability to control operating costs.

Cash Flow and Liquidity (working capital) - Management reviews current cash and short-term investments along with cash flow from operating, investing, and financing activities to determine the Company's short-term cash needs for operations and expansion. The Company believes that existing cash, short-term investments, and cash flow from operations will be sufficient to fund current and long-term anticipated capital expenditures and working capital requirements for the next several years.

## RESULTS OF OPERATIONS

The table below sets forth the percentage relationships of sales and various expense categories in the Statements of Income for the thirteen-week periods ended May 1, 2010 and May 2, 2009:

|  | Percentage of Net Sales <br> Thirteen Weeks Ended <br> May 1, 2010 <br> May 2, 2009 | Percentage <br> Increase/(Decrease) |  |
| :--- | ---: | ---: | ---: |
| Net sales | $100.0 \%$ |  |  |
| Cost of sales (including buying, |  | $100.0 \%$ | $7.6 \%$ |
| distribution, and occupancy costs) | $56.5 \%$ |  |  |
| Gross profit | $43.5 \%$ | $56.6 \%$ | $7.4 \%$ |
| Selling expenses | $18.5 \%$ | $43.4 \%$ | $7.8 \%$ |
| General and administrative expenses | $3.5 \%$ | $18.8 \%$ | $6.0 \%$ |
| Income from operations | $21.5 \%$ | $3.7 \%$ | $0.6 \%$ |
| Other income, net | $0.8 \%$ | $0.9 \%$ | $10.7 \%$ |
| Income before income taxes | $22.3 \%$ | $21.5 \%$ | $101.5 \%$ |
| Provision for income taxes | $8.3 \%$ | $7.9 \%$ | $12.6 \%$ |
| Net income | $14.0 \%$ | $13.5 \%$ | $13.5 \%$ |
|  |  | $12.1 \%$ |  |

Net sales increased from $\$ 199.7$ million in the first quarter of fiscal 2009 to $\$ 214.8$ million in the first quarter of fiscal 2010, a $7.6 \%$ increase. Comparable store sales increased by $\$ 5.3$ million, or $2.8 \%$, for the thirteen week period ended May 1, 2010 compared to the same period in the prior year. The comparable store sales increase was primarily due to a $4.2 \%$ increase in the average retail price of merchandise sold during the quarter and a $4.3 \%$ increase in the average number of units sold per transaction, which were partially offset by a $5.3 \%$ decrease in the number of transactions at comparable stores during the quarter. Sales growth for the thirteen week period was also attributable to the inclusion of a full quarter of operating results for the 20 new stores opened during fiscal 2009, to the opening of 11 new stores during the first quarter of fiscal 2010, and to growth in online sales. Online sales for the quarter (which are not included in comparable store sales) increased $24.0 \%$ to $\$ 14.4$ million. Average sales per square foot increased $1.1 \%$ from $\$ 96.58$ for the first quarter of fiscal 2009 to $\$ 97.69$ for the first quarter of fiscal 2010. Total square footage as of May 1, 2010 was 2.057 million.

The Company's average retail price per piece of merchandise sold increased $\$ 1.79$, or $4.2 \%$, during the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. This $\$ 1.79$ increase was primarily attributable to the following changes (with their corresponding effect on the overall average price per piece): a $7.1 \%$ increase in average denim price points (\$1.33), an $8.5 \%$ increase in average accessory price points ( $\$ 0.23$ ), a $9.4 \%$ increase in average footwear price points ( $\$ 0.20$ ), a $2.8 \%$ increase in average active apparel price points ( $\$ 0.09$ ), and a shift in the merchandise mix ( $\$ 0.50$ ). These increases were partially offset by a $4.2 \%$ reduction in average knit shirt price points ( $-\$ 0.50$ ) and reduced price points in certain other categories ( $-\$ 0.06$ ). These changes are primarily a reflection of merchandise shifts in terms of brands and product styles, fabrics, details, and finishes.

Gross profit after buying, distribution, and occupancy expenses increased from $\$ 86.7$ million for the first quarter of fiscal 2009 to $\$ 93.5$ million for the first quarter of fiscal $2010,7.8 \%$ increase. As a percentage of net sales, gross profit increased from $43.4 \%$ in the first quarter of fiscal 2009 to $43.5 \%$ in the first quarter of fiscal 2010. The increase was attributable to a $0.55 \%$ improvement, as a percentage of net sales, in actual merchandise margins and a $0.15 \%$ reduction in expense related to the incentive bonus accrual; which were partially offset by an increase in buying, distribution, and occupancy costs $(0.60 \%$, as a percentage of net sales). The improvement in merchandise margins for the quarter was achieved through reduced markdowns, as a result of strong sell-through of new product, and a slight
increase in the percentage of net sales from private label merchandise; which were partially offset by an increase in Primo Card redemptions.

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Selling expenses increased from $\$ 37.6$ million for the first quarter of fiscal 2009 to $\$ 39.8$ million for the first quarter of fiscal 2010, a $6.0 \%$ increase. As a percentage of net sales, selling expenses decreased from $18.8 \%$ in the first quarter of fiscal 2009 to $18.5 \%$ in the first quarter of fiscal 2010. The reduction was primarily attributable to a $1.00 \%$ reduction, as a percentage of net sales, in expense related to the incentive bonus accrual and a $0.30 \%$ reduction in store payroll expense. These reductions were partially offset by increases in expense related to store supplies $(0.50 \%$, as a percentage of net sales), internet-related fulfillment and marketing expenses ( $0.30 \%$, as a percentage of net sales), and health insurance claims $(0.20 \%$, as a percentage of net sales).

General and administrative expenses increased $0.6 \%$, but were $\$ 7.4$ million for both the first quarter of fiscal 2009 and first quarter of fiscal 2010. As a percentage of net sales, general and administrative expenses decreased from $3.7 \%$ in the first quarter of fiscal 2009 to $3.5 \%$ in the first quarter of fiscal 2010 . The reduction was primarily attributable to a $0.20 \%$ reduction, as a percentage of net sales, in expense related to the incentive bonus accrual.

As a result of the above changes, the Company's income from operations increased $10.7 \%$ to $\$ 46.2$ million for the first quarter of fiscal 2010 compared to $\$ 41.7$ million for the first quarter of fiscal 2009. Income from operations was $21.5 \%$ of net sales for the first quarter of fiscal 2010 compared to $20.9 \%$ for the first quarter of fiscal 2009.

Other income increased from $\$ 0.9$ million for the first quarter of fiscal 2009 to $\$ 1.8$ million for the first quarter of fiscal 2010. The increase in other income was the result of a $\$ 1.1$ million sales tax refund received through state economic incentive programs, partially offset by a reduction in income earned on the Company's cash and investments as a result of lower interest rates.

Income tax expense as a percentage of pre-tax income was $37.3 \%$ in the first quarter of fiscal 2010 and $37.0 \%$ in the first quarter of fiscal 2009, bringing net income to $\$ 30.1$ million in the first quarter of fiscal 2010 compared to $\$ 26.9$ million in the first quarter of fiscal 2009 , an increase of $12.1 \%$.

## LIQUIDITY AND CAPITAL RESOURCES

As of May 1, 2010, the Company had working capital of $\$ 176.7$ million, including $\$ 131.4$ million of cash and cash equivalents and short-term investments of $\$ 22.9$ million. The Company's cash receipts are generated from retail sales and from investment income, and the Company's primary ongoing cash requirements are for inventory, payroll, occupancy costs, dividend payments, new store expansion, remodeling, and other capital expenditures. Historically, the Company's primary source of working capital has been cash flow from operations. During the first quarter of fiscal 2010 and 2009, the Company's cash flow from operating activities was $\$ 33.6$ million and $\$ 35.5$ million, respectively.

The uses of cash for both thirteen week periods include payment of annual bonuses accrued at fiscal year end, changes in inventory and accounts payable for build-up of inventory levels, dividend payments, construction costs for new and remodeled stores, and other capital expenditures.

During the first quarter of fiscal 2010 and 2009, the Company invested $\$ 9.6$ million and $\$ 11.7$ million, respectively, in new store construction, store renovation, and store technology upgrades. The Company also spent $\$ 11.1$ million and $\$ 3.2$ million in the first quarter of fiscal 2010 and 2009, respectively, in capital expenditures for the corporate headquarters and distribution facility. The capital spending for the corporate headquarters and distribution facility during fiscal 2009 included a portion of the total $\$ 5.5$ million in capital spending related to the expansion of the Company's online fulfillment infrastructure within its current warehouse and distribution center in Kearney, Nebraska. The newly expanded online fulfillment center went live in June 2009 and the expansion approximately doubled the size of the previous infrastructure. Capital spending for the corporate headquarters and distribution facility during fiscal 2010 includes payments made as work progressed on the Company's new distribution center currently under construction in Kearney, Nebraska.

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During the remainder of fiscal 2010, the Company anticipates completing approximately 32 additional store construction projects, including approximately 10 new stores and approximately 22 stores to be substantially remodeled and/or relocated. Management estimates that total capital expenditures during fiscal 2010 will be approximately $\$ 65$ to $\$ 70$ million. The Company believes that existing cash and cash equivalents, investments, and cash flow from operations will be sufficient to fund current and long-term anticipated capital expenditures and working capital requirements for the next several years. The Company has a consistent record of generating positive cash flow each year and, as of May 1, 2010, had total cash and investments of $\$ 236.1$ million. The Company does not currently have plans for a merger or acquisition and has fairly consistent plans for new store expansion and remodels. Based upon past results and current plans, management does not anticipate any large swings in the Company's need for cash in the upcoming years.

Future conditions, however, may reduce the availability of funds based upon factors such as a decrease in demand for the Company's product, change in product mix, competitive factors, and general economic conditions as well as other risks and uncertainties which would reduce the Company's sales, net profitability, and cash flows. Also, the Company's acceleration in store openings and/or remodels or the Company entering into a merger, acquisition, or other financial related transaction could reduce the amount of cash available for further capital expenditures and working capital requirements.

The Company has available an unsecured line of credit of $\$ 17.5$ million with Wells Fargo Bank, N.A. for operating needs and letters of credit. The line of credit provides that outstanding letters of credit cannot exceed $\$ 10.0$ million. Borrowings under the line of credit provide for interest to be paid at a rate equal to the prime rate established by the Bank. The Company has, from time to time, borrowed against these lines during periods of peak inventory build-up. There were no bank borrowings during the first quarter of fiscal 2010 or 2009.

Auction-Rate Securities - As of May 1, 2010, total cash and investments included $\$ 21.9$ million of auction-rate securities ("ARS") and preferred securities, which compares to $\$ 22.8$ million of ARS and preferred securities as of January 30, 2010. Of the $\$ 21.9$ million in ARS and preferred securities as of May 1, 2010, $\$ 1.3$ million has been included in short-term investments, due to known or anticipated subsequent redemptions at par value plus accrued interest, and $\$ 20.6$ million has been included in long-term investments. ARS have a long-term stated maturity, but are reset through a "dutch auction" process that occurs every 7 to 49 days, depending on the terms of the individual security. During February 2008, a significant number of auctions related to these securities failed, meaning that there was not enough demand to sell the entire issue at auction. The failed auctions have limited the current liquidity of the Company's investments in ARS and the Company has reason to believe that certain of the underlying issuers of its ARS are currently at risk. The Company does not anticipate, however, that further auction failures will have a material impact on the Company's ability to fund its business.

ARS and preferred securities are reported at fair market value, and as of May 1, 2010, the reported investment amount is net of a $\$ 1.2$ million temporary impairment and a $\$ 2.7$ million other-than-temporary impairment ("OTTI") to account for the impairment of certain securities from their stated par value. The Company reported the $\$ 1.2$ million temporary impairment, net of tax, as an "accumulated other comprehensive loss" of $\$ 0.8$ million in stockholders' equity as of May 1, 2010. The Company has accounted for the impairment as temporary, as it currently expects to be able to successfully liquidate its investments without loss once the ARS market resumes normal operations.

The Company reviews all investments for OTTI at least quarterly or as indicators of impairment exist. The value and liquidity of ARS held by the Company may be affected by continued auction-rate failures, the credit quality of each security, the amount and timing of interest payments, the amount and timing of future principal payments, and the probability of full repayment of the principal. Additional indicators of impairment include the duration and severity of the decline in market value. The interest rates on these investments will be determined by the terms of each individual ARS. The material risks associated with the ARS held by the Company include those stated above as well as the
current economic environment, downgrading of credit ratings on investments held, and the volatility of the entities backing each of the issues. In addition, the Company considers qualitative factors including, but not limited to, the financial condition of the investee, the credit rating of the investee, and the current and expected market and industry conditions in which the investee operates. The Company believes it has the ability and intent to hold these investments until recovery of market value occurs.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon The Buckle, Inc.'s financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires that management make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the financial statement date, and the reported amounts of sales and expenses during the reporting period. The Company regularly evaluates its estimates, including those related to inventory, investments, incentive bonuses, and income taxes. Management bases its estimates on past experience and on various other factors that are thought to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes that the estimates and judgments used in preparing these financial statements were the most appropriate at that time. Presented below are those critical accounting policies that management believes require subjective and/or complex judgments that could potentially affect reported results of operations.
1.Revenue Recognition. Retail store sales are recorded upon the purchase of merchandise by customers. Online sales are recorded when merchandise is delivered to the customer, with the time of delivery being based on estimated shipping time from the Company's distribution center to the customer. Shipping fees charged to customers are included in revenue and shipping costs are included in selling expenses. The Company accounts for layaway sales in accordance with FASB ASC 605, Revenue Recognition, recognizing revenue from sales made under its layaway program upon delivery of the merchandise to the customer. Revenue is not recorded when gift cards and gift certificates are sold, but rather when a card or certificate is redeemed for merchandise. A current liability for unredeemed gift cards and certificates is recorded at the time the card or certificate is purchased. The amounts of the gift certificate and gift card liabilities are determined using the outstanding balances from the prior three and four years of issuance, respectively. The liability recorded for unredeemed gift certificates and gift cards was $\$ 10.2$ million and $\$ 13.5$ million as of May 1, 2010 and January 30, 2010, respectively. The Company records breakage as other income when the probability of redemption, which is based on historical redemption patterns, is remote.

The Company establishes a liability for estimated merchandise returns based upon the historical average sales return percentage. Customer returns could potentially exceed the historical average, thus reducing future net sales results and potentially reducing future net earnings. The accrued liability for reserve for sales returns was $\$ 0.7$ million and $\$ 0.6$ million at May 1, 2010 and January 30, 2010, respectively.
2. Inventory. Inventory is valued at the lower of cost or market. Cost is determined using an average cost method that approximates the first-in, first-out (FIFO) method. Management makes adjustments to inventory and cost of goods sold, based upon estimates, to reserve for merchandise obsolescence and markdowns that could affect market value, based on assumptions using calculations applied to current inventory levels within each of four different markdown levels. Management also reviews the levels of inventory in each markdown group and the overall aging of the inventory versus the estimated future demand for such product and the current market conditions. Such judgments could vary significantly from actual results, either favorably or unfavorably, due to fluctuations in future economic conditions, industry trends, consumer demand, and the competitive retail environment. Such changes in market conditions could negatively impact the sale of markdown inventory, causing further markdowns or inventory obsolescence, resulting in increased cost of goods sold from write-offs and reducing the Company's net earnings. The liability recorded as a reserve for markdowns and/or obsolescence was $\$ 6.0$ million and $\$ 5.8$ million as of May 1,2010 and January 30, 2010, respectively. The Company is not aware of any events, conditions, or changes in demand or price that would indicate that its inventory valuation may not be materially accurate at this time.

Income Taxes. The Company records a deferred tax asset and liability for expected future tax consequences resulting from temporary differences between financial reporting and tax bases of assets and liabilities. The Company considers future taxable income and ongoing tax planning in assessing the value of its deferred tax assets. If the Company determines that it is more than likely that these assets will not be realized, the Company would reduce the value of these assets to their expected realizable value, thereby decreasing net income. Estimating the value of these assets is based upon the Company's judgment. If the Company subsequently determined that the deferred tax assets, which had been written down, would be realized in the future, such value would be increased. Adjustment would be made to increase net income in the period such determination was made.
4. Operating Leases. The Company leases retail stores under operating leases. Most lease agreements contain tenant improvement allowances, rent holidays, rent escalation clauses, and/or contingent rent provisions. For purposes of recognizing lease incentives and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date of initial possession to begin amortization, which is generally when the Company enters the space and begins to make improvements in preparation of intended use. For tenant improvement allowances and rent holidays, the Company records a deferred rent liability on the balance sheets and amortizes the deferred rent over the terms of the leases as reductions to rent expense on the statements of income.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases on the statements of income. Certain leases provide for contingent rents, which are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability on the balance sheets and the corresponding rent expense when specified levels have been achieved or are reasonably probable to be achieved.
5.Investments. The Company accounts for investments in accordance with FASB ASC 320, Investments-Debt and Equity Securities. Investments classified as short-term investments include securities with a maturity of greater than three months and less than one year, and a portion of the Company's investments in auction-rate securities ("ARS"), which are available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity (net of the effect of income taxes), using the specific identification method, until they are sold.

The Company reviews impairment in accordance with FASB ASC 320 to determine the classification of potential impairments as either temporary or other-than-temporary. A temporary impairment results in an unrealized loss being recorded in other comprehensive income. An impairment that is considered other-than-temporary would be recognized in net income. The Company considers various factors in reviewing impairment, including the duration and severity of the decline in market value. In addition, the Company considers qualitative factors including, but not limited to, the financial condition of the investee, the credit rating of the investee, the current and expected market and industry conditions in which the investee operates, and the Company's intent and ability to hold the investments for a period of time sufficient to allow for any anticipated recovery in market value. The Company believes it has the ability and maintains its intent to hold these investments until recovery of market value occurs.

The Company determined the fair value of ARS using Level 1 inputs for known or anticipated subsequent redemptions at par value, Level 2 inputs using observable inputs, and Level 3 using unobservable inputs, where the following criteria were considered in estimating fair value:


- Quoted prices for similar assets in markets that are not active - including markets where there are few transactions for the asset, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- $\quad$ Pricing was provided by a third-party valuation consultant (using Level 3 inputs).

In addition, the Company considers other factors including, but not limited to, the financial condition of the investee, the credit rating, insurance, guarantees, collateral, cash flows, and the current and expected market and industry conditions in which the investee operates. Management believes it has used information that was reasonably obtainable in order to complete its valuation process and determine if the Company's investments in ARS had incurred
any temporary and/or other-than-temporary impairment as of May 1, 2010.

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## OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, AND COMMERCIAL COMMITMENTS

As referenced in the tables below, the Company has contractual obligations and commercial commitments that may affect the financial condition of the Company. Based on management's review of the terms and conditions of its contractual obligations and commercial commitments, there is no known trend, demand, commitment, event, or uncertainty that is reasonably likely to occur which would have a material effect on the Company's financial condition, results of operations, or cash flows.

In addition, the commercial obligations and commitments made by the Company are customary transactions which are similar to those of other comparable retail companies. The operating lease obligations shown in the table below represent future cash payments to landlords required to fulfill the Company's minimum rent requirements. Such amounts are actual cash requirements by year and are not reported net of any tenant improvement allowances received from landlords.

The following tables identify the material obligations and commitments as of May 1, 2010:

| Contractual obligations (dollar amounts in thousands): | Payments Due by Period |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Total |  | Less than 1 year |  | 1-3 years |  | 4-5 years |  | After 5 years |  |
| Long term debt and purchase obligations | \$ | 10,642 | \$ | 10,382 | \$ | 260 | \$ | - | \$ |  |
| Deferred compensation |  | 7,223 |  |  |  |  |  |  |  |  |
| Operating leases |  | 316,834 |  | 49,368 |  | 85,467 |  | 69,626 |  |  |
| Total contractual obligations | \$ | 334,699 | \$ | 59,750 | \$ | 85,727 | \$ | 69,626 | \$ |  |
|  | Amount of Commitment Expiration Per Period |  |  |  |  |  |  |  |  |  |
| Other commercial commitments (dollar amounts in thousands): |  | Total mounts mmitted |  | than 1 <br> year |  | years |  | years |  |  |
| Lines of credit | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| Total commercial commitments | \$ |  | \$ | - | \$ |  | \$ | - | \$ |  |

The Company has available an unsecured line of credit of $\$ 17.5$ million, of which $\$ 10.0$ million is available for letters of credit, which is excluded from the preceding table. Certain merchandise purchase orders require that the Company open letters of credit. When the Company takes possession of the merchandise, it releases payment on the letters of credit. The amounts of outstanding letters of credit reported reflect the open letters of credit on merchandise ordered, but not yet received or funded. The Company believes it has sufficient credit available to open letters of credit for merchandise purchases. There were no bank borrowings during the first quarter of fiscal 2010 or the first quarter of fiscal 2009. The Company had outstanding letters of credit totaling $\$ 0.8$ million and $\$ 0.6$ million at May 1,2010 and January 30, 2010, respectively. The Company has no other off-balance sheet arrangements.

## SEASONALITY AND INFLATION

The Company's business is seasonal, with the holiday season (from approximately November 15 to December 30) and the back-to-school season (from approximately July 15 to September 1) historically contributing the greatest volume of net sales. For fiscal years 2009, 2008, and 2007, the holiday and back-to-school seasons accounted for approximately $35 \%, 37 \%$, and $38 \%$, respectively, of the Company's fiscal year net sales. Although the operations of the Company are influenced by general economic conditions, the Company does not believe that inflation has had a material effect on the results of operations during the thirteen-week periods ended May 1, 2010 and May 2, 2009. Quarterly results may vary significantly depending on a variety of factors including the timing and amount of sales and costs associated with the opening of new stores, the timing and level of markdowns, the timing of store closings, the remodeling of existing stores, competitive factors, and general economic conditions.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The new disclosures about fair value measurements are presented in Note 5 to these financial statements, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. The adoption of this statement had no effect on the Company's financial position or results of operations.

## FORWARD LOOKING STATEMENTS

Information in this report, other than historical information, may be considered to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Act"). Such statements are made in good faith by the Company pursuant to the safe-harbor provisions of the 1995 Act. In connection with these safe-harbor provisions, this management's discussion and analysis contains certain forward-looking statements, which reflect management's current views and estimates of future economic conditions, Company performance, and financial results. The statements are based on many assumptions and factors that could cause future results to differ materially. Such factors include, but are not limited to, changes in product mix, changes in fashion trends, competitive factors, and general economic conditions, economic conditions in the retail apparel industry, as well as other risks and uncertainties inherent in the Company's business and the retail industry in general. Any changes in these factors could result in significantly different results for the Company. The Company further cautions that the forward-looking information contained herein is not exhaustive or exclusive. The Company does not undertake to update any forward-looking statements, which may be made from time to time by or on behalf of the Company.

## ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has evaluated the disclosure requirements of Item 305 of S-K "Quantitative and Qualitative Disclosures about Market Risk," and has concluded that the Company has inherent risks in its operations as it is exposed to certain market risks, including interest rates.

Interest Rate Risk - To the extent that the Company borrows under its line of credit facility, the Company would be exposed to market risk related to changes in interest rates. As of May 1, 2010, no borrowings were outstanding under the line of credit facility. The Company is not a party to any derivative financial instruments. Additionally, the Company is exposed to market risk related to interest rate risk on the cash and investments in interest-bearing securities. These investments have carrying values that are subject to interest rate changes that could impact earnings to the extent that the Company did not hold the investments to maturity. If there are changes in interest rates, those changes would also affect the investment income the Company earns on its cash and investments. For each one-quarter percent decline in the interest/dividend rate earned on cash and investments (approximately a $50 \%$ change in the rate earned), the Company's net income would decrease approximately $\$ 0.4$ million, or less than $\$ 0.01$ per share. This amount could vary based upon the number of shares of the Company's stock outstanding and the level of cash and investments held by the Company.

Other Market Risk - At May 1, 2010, the Company held $\$ 25.8$ million, at par value, of investments in auction-rate securities ("ARS") and preferred stock. The Company concluded that a $\$ 1.2$ million temporary impairment and $\$ 2.7$ million other-than-temporary impairment existed related to these securities as of May 1, 2010. Given current market conditions in the ARS and equity markets, the Company may incur additional temporary or other-than-temporary impairment in the future if market conditions persist and the Company is unable to recover the cost of its investments in ARS.

## ITEM 4 - CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that material information, which is required to be timely disclosed, is accumulated and communicated to management in a timely manner. An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report were effective to provide reasonable assurance that information required to be disclosed by the Company in the Company's reports that it files or submits under the Exchange Act is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms.

## Change in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

THE BUCKLE, INC.

## PART II — OTHER INFORMATION

Item 1. Legal Proceedings:
None

Item 1A. Risk Factors:
The effect of economic pressures and other business factors - During the thirteen weeks ended May 1, 2010, economic conditions continued to cause uncertainty in the market, which resulted in a lack of consumer confidence and a reduction of consumer spending. The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer spending, including economic conditions affecting disposable consumer income such as employment, consumer debt, interest rates, increases in energy costs, and consumer confidence. There can be no assurance that consumer spending will not be further negatively affected by general or local economic conditions, which could have an adverse impact on our continued growth and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds:
The following table sets forth information concerning purchases made by the Company of its common stock for each of the months in the fiscal quarter ended May 1, 2010:

> | Total | Total Number Dfaximum Number of Shares |  |
| :---: | :---: | :---: |
| Number | Average Shares Purchas\&Hat May Yet Be Purchased |  |
| of Shares | Price Paidas Part of Publicly | Under Publicly |
| Purchased | Per Share Announced Plans | Announced Plans |

| Jan. 31, 2010 to Feb. 27, 2010 | - | - | - | 799,300 |
| :--- | :--- | :--- | :--- | :--- |
| Feb. 28, 2010 to April 3, 2010 | - | - | - | 799,300 |
| April 4, 2010 to May 1, 2010 | - | - | - | 799,300 |

The Board of Directors authorized a $1,000,000$ share repurchase plan on November 20, 2008. The Company has 799,300 shares remaining to complete this authorization.

Item 3. Defaults Upon Senior Securities: None

Item 4. Reserved.
Item 5. Other Information:
None
Item 6. Exhibits:
(a) Exhibits 31.1 and 31.2 certifications, as well as Exhibits 32.1 and 32.2 Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## THE BUCKLE, INC.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BUCKLE, INC.

Dated: June 10, 2010

Dated: June 10, 2010
/s/ DENNIS H. NELSON
DENNIS H. NELSON, President and CEO
(principal executive officer)
/s/ KAREN B. RHOADS
KAREN B. RHOADS, Vice President of Finance and CFO (principal accounting officer)

