BUCKLE INC
Form 10-Q
September 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended **August 2, 2008**

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: 001-12951

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

Nebraska	**47-0366193**
(State or other jurisdiction of incorporation or organization)	(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

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(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act). Check one.
Large accelerated filer; þ Accelerated filer; o Non-accelerated filer

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

The number of shares outstanding of the Registrant's Common Stock, as of August 29, 2008, was 30,726,303.

THE BUCKLE, INC.

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THE BUCKLE, INC.

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

		August 2, 2008		February 2, 2008
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	184,144	$	64,293
Short-term investments		22,760		102,910
Accounts receivable, net of allowance of $24 and $62, respectively		5,012		2,800
Inventory		103,432		77,639
Prepaid expenses and other assets		16,486		13,979
Total current assets		331,834		261,621
PROPERTY AND EQUIPMENT:		239,639		240,237
Less accumulated depreciation and amortization		(141,840)		(137,903)
		97,799		102,334
LONG-TERM INVESTMENTS		71,880		81,201
OTHER ASSETS		4,930		5,501
	$	506,443	$	450,657
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	48,218	$	25,155
Accrued employee compensation		16,501		27,836
Accrued store operating expenses		7,004		5,704
Gift certificates redeemable		5,814		8,511
Income taxes payable		7,097		10,020
Total current liabilities		84,634		77,226
DEFERRED COMPENSATION		4,830		4,127
DEFERRED RENT LIABILITY		34,607		30,984
Total liabilities		124,071		112,337
COMMITMENTS				
STOCKHOLDERS' EQUITY:				
Common stock, authorized 100,000,000 shares of $.01 par value; 30,651,343 and 29,841,668 shares issued and outstanding at August 2, 2008 and February 2, 2008, respectively		307		298
Additional paid-in capital		66,272		46,977
Retained earnings		316,769		291,045

Accumulated other comprehensive loss		(976)		-
Total stockholders’ equity		382,372		338,320
	$	506,443	$	450,657

See notes to unaudited condensed financial statements.

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THE BUCKLE, INC.

STATEMENTS OF INCOME
(Amounts in Thousands Except Per Share Amounts)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
SALES, Net of returns and allowances	$ 169,765	$ 124,257	$ 330,065	$ 245,368
COST OF SALES (Including buying, distribution, and occupancy costs)	99,497	77,844	194,175	153,452
Gross profit	70,268	46,413	135,890	91,916
OPERATING EXPENSES:				
Selling	33,480	25,065	65,039	48,489
General and administrative	3,477	4,891	10,172	9,871
	36,957	29,956	75,211	58,360
INCOME FROM OPERATIONS	33,311	16,457	60,679	33,556
OTHER INCOME, Net	2,049	2,260	4,369	4,383
INCOME BEFORE INCOME TAXES	35,360	18,717	65,048	37,939
PROVISION FOR INCOME TAXES	13,084	6,925	24,055	13,954
NET INCOME	$ 22,276	$ 11,792	$ 40,993	$ 23,985
EARNINGS PER SHARE:				
Basic	$ 0.74	$ 0.40	$ 1.36	$ 0.81
Diluted	$ 0.72	$ 0.38	$ 1.32	$ 0.78
Basic weighted average shares	30,231	29,776	30,051	29,622
Diluted weighted average shares	31,058	30,924	30,946	30,806

See notes to unaudited condensed financial statements.

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 Comprehensive Loss	Total
FISCAL 2008						
BALANCE, February 3, 2008	29,841,668	$ 298	$ 46,977	$ 291,045	$ -	$ 338,320
Net income	-	-	-	40,993	-	40,993
Dividends paid on common stock, ($0.25 per share)	-	-	-	(15,269)	-	(15,269)
Common stock issued on exercise of stock options	669,725	8	8,868	-	-	8,876
Issuance of non-vested stock, net of forfeitures	139,950	1	(1)	-	-	-
Amortization of non-vested stock grants	-	-	2,599	-	-	2,599
Stock option compensation expense	-	-	199	-	-	199
Income tax benefit related to exercise of stock options	-	-	7,630	-	-	7,630
Unrealized loss on investment securities, net of tax	-	-	-	-	(976)	(976)
BALANCE, August 2, 2008	30,651,343	$ 307	$ 66,272	$ 316,769	$ (976)	$ 382,372
FISCAL 2007						
BALANCE, February 4, 2007	29,408,576	$ 294	$ 43,493	$ 242,800	$ -	$ 286,587
Net income	-	-	-	23,985	-	23,985
Dividends paid on common stock, ($0.20 per share)	-	-	-	(12,013)	-	(12,013)
Common stock issued on exercise of stock options	645,832	7	8,495	-	-	8,502
Issuance of non-vested stock, net of forfeitures	138,345	1	(1)	-	-	-
Amortization of non-vested stock grants	-	-	1,941	-	-	1,941
Stock option compensation expense	-	-	202	-	-	202

Income tax benefit related to exercise of stock options	-	-	5,693	-	-	5,693
BALANCE, August 4, 2007	30,192,753	$ 302	$ 59,823	$ 254,772	$ -	$ 314,897

See notes to unaudited condensed financial statements.

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THE BUCKLE, INC.

STATEMENTS OF CASH FLOWS
(Dollar Amounts in Thousands)
(Unaudited)

	Twenty-six Weeks Ended	
	August 2, 2008	**August 4, 2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 40,993	$ 23,985
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	10,383	9,485
Amortization of non-vested stock grants	2,599	1,941
Stock option compensation expense	199	202
Gain on involuntary conversion of corporate aircraft to monetary asset	(2,963)	-
Other	50	67
Changes in operating assets and liabilities:		
Accounts receivable	(1,874)	205
Inventory	(25,793)	(25,715)
Prepaid expenses and other assets	(1,196)	(2,181)
Accounts payable	23,247	19,723
Accrued employee compensation	(11,335)	(8,095)
Accrued store operating expenses	1,300	993
Gift certificates redeemable	(2,697)	(2,398)
Income taxes payable	(1,712)	(3,451)
Long-term liabilities and deferred compensation	4,326	2,100
Net cash flows from operating activities	35,527	16,861
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(15,044)	(14,938)
Proceeds from sale of property and equipment	11,587	18
Change in other assets	(167)	151
Purchases of investments	(16,581)	(39,366)
Proceeds from sales/maturities of investments	104,503	25,563
Net cash flows from investing activities	84,298	(28,572)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options	8,876	8,502
Excess tax benefit from stock option exercises	6,419	5,048
Payment of dividends	(15,269)	(12,013)
Net cash flows from financing activities	26	1,537
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	119,851	(10,174)

CASH AND CASH EQUIVALENTS, Beginning of period		64,293		35,752
CASH AND CASH EQUIVALENTS, End of period	$	184,144	$	25,578

See notes to unaudited condensed financial statements.

THE BUCKLE, INC.
NOTES TO FINANCIAL STATEMENTS
THIRTEEN and TWENTY-SIX WEEKS ENDED AUGUST 2, 2008 AND AUGUST 4, 2007
(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 February 2, 2008, included in The Buckle, Inc.'s 2007 Form 10-K.

2. 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 381 stores located in 39 states throughout the continental United States (excluding the northeast) as of August 2, 2008, and 362 stores in 38 states as of August 4, 2007. During the second quarter of fiscal 2008, the Company opened 7 new stores and substantially remodeled 4 stores. During the second quarter of fiscal 2007, the Company opened 9 new stores and substantially remodeled 5 stores.

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

	Percentage of Net Sales Thirteen Weeks Ended		Percentage of Net Sales Twenty-six Weeks Ended	
Merchandise Group	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Denims	34.9%	37.4%	38.4%	39.8%
Tops (including sweaters)	40.9	36.5	38.5	33.8
Sportswear/Fashions	10.2	9.8	9.3	9.4
Accessories	7.8	8.1	7.5	7.8
Footwear	5.0	6.4	5.0	7.0
Casual bottoms	0.9	1.4	0.9	1.6
Outerwear	0.2	0.3	0.3	0.5
Other	0.1	0.1	0.1	0.1
	100.0%	100.0%	100.0%	100.0%

THE BUCKLE, INC.
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3. 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.

	Thirteen Weeks Ended August 2, 2008			Thirteen Weeks Ended August 4, 2007		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
Basic EPS	$ 22,276	30,231	$ 0.74	$ 11,792	29,776	$ 0.40
Effect of dilutive securities Stock options and non-vested shares	-	827	(0.02)	-	1,148	(0.02)
Diluted EPS	$ 22,276	31,058	$ 0.72	$ 11,792	30,924	$ 0.38

	Twenty-six Weeks Ended August 2, 2008			Twenty-six Weeks Ended August 4, 2007		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
Basic EPS	$ 40,993	30,051	$ 1.36	$ 23,985	29,622	$ 0.81
Effect of dilutive securities Stock options and non-vested shares	-	895	(0.04)	-	1,184	(0.03)
Diluted EPS	$ 40,993	30,946	$ 1.32	$ 23,985	30,806	$ 0.78

THE BUCKLE, INC.
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4. Investments

The following is a summary of investments as of August 2, 2008:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
Auction-rate securities	$ 55,795	$ -	$ (1,549)	$ 54,246
Held-to-Maturity Securities:				
State and municipal bonds	$ 32,064	$ 258	$ (85)	$ 32,237
Fixed maturities	500	-	-	500
U.S. treasuries	3,000	13	-	3,013
	$ 35,564	$ 271	$ (85)	$ 35,750
Trading Securities:				
Mutual funds	$ 4,987	$ -	$ (157)	$ 4,830

The following is a summary of investments as of February 2, 2008:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
Auction-rate securities	$ 145,835	$ -	$ -	$ 145,835
Held-to-Maturity Securities:				
State and municipal bonds	$ 26,260	$ 375	$ (10)	$ 26,625
Fixed maturities	2,899	1	-	2,900
U.S. treasuries	4,990	24	-	5,014
	$ 34,149	$ 400	$ (10)	$ 34,539
Trading Securities:				
Mutual funds	$ 4,143	$ 5	$ (21)	$ 4,127

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The amortized cost and fair value of debt securities by contractual maturity as of August 2, 2008 is as follows:

	Amortized Cost	Fair Value
Fiscal Periods		
Twelve months ending August 1, 2009	$ 14,405	$ 14,454
Twelve months ending July 31, 2010	6,709	6,757
Twelve months ending July 30, 2011	4,412	4,459
Twelve months ending July 28, 2012	2,196	2,235
Twelve months ending August 3, 2013	1,010	1,022
Thereafter	6,832	6,823
	$ 35,564	$ 35,750

At August 2, 2008 and February 2, 2008, held-to-maturity investments of $21,159 and $20,152 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") are classified as available-for-sale and reported at fair market value. At the end of the second quarter of fiscal 2008, the reported investment amount is net of a $1,549 unrealized loss recorded during the first half of fiscal 2008 to account for the temporary impairment of certain securities from their stated par value.

As of August 2, 2008, the Company had $55,795 invested in ARS, which are reported at their estimated fair value of $54,246. As of February 2, 2008, the Company had $145,835 invested in ARS. 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 impact of the failed auctions on holders of ARS is that the holder cannot sell the securities and the issuer's interest rate is generally reset to a higher "penalty" rate. The failed auctions have limited the current liquidity of certain of the Company's investments in ARS; however, the Company has no reason to believe that any of the underlying issuers of its ARS are currently at risk or that further auction failures will have a material impact on the Company's ability to fund its business. The Company was able to successfully liquidate $94,640 of its investments in auction-rate securities at par value during the first half of fiscal 2008.

As of August 2, 2008, $8,355 of the Company's investment in ARS was classified in short-term investments and $45,891 was classified in long-term investments. The amount classified in long-term investments has not experienced a successful auction subsequent to the end of the Company's fiscal year and is net of a $1,549 unrealized loss related to the temporary impairment of certain securities from their stated par value.

As of February 2, 2008, $88,913 of the Company's investment in ARS was classified in short-term investments and $56,922 was classified in long-term investments.

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5. Fair Value Measurements

Effective February 3, 2008, the Company adopted the provisions of FASB Statement No. 157 ("SFAS 157"), *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 apply to all financial instruments that are being measured and reported on a fair value basis. In addition, in February 2008, FASB issued FASB Staff Position ("FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and liabilities. The partial adoption of SFAS 157 did not have any impact on the Company's financial position or results of operations.

As defined by SFAS 157, 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.
- Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 – Unobservable inputs that are not corroborated by market data.

As of August 2, 2008, the Company held certain assets that are required to be measured at fair value on a recurring basis, including money market funds (which are classified in cash and cash equivalents), available-for-sale securities, and trading securities. The Company's available-for-sale securities include its investments in auction-rate securities, as further described in Note 4. The failed auctions, beginning in February 2008, related to certain of the Company's investments in auction-rate securities have limited the availability of quoted market prices. As such, the Company has based its valuation for these securities on observable market data for other securities with similar characteristics and credit quality of those held by the Company.

As a result of the decline in fair value for certain of the Company's investments in auction-rate securities, which the Company attributes to a current lack of liquidity as opposed to deterioration in the credit quality of the underlying issuers, the Company recorded a pre-tax unrealized loss of $1,549 in the first half of fiscal 2008. This unrealized loss is reported net of tax as a $976 reduction to stockholders' equity in accumulated other comprehensive income. Any future fluctuation in fair value related to these securities that the Company judges to be temporary, including any recoveries of previous write-downs, would be recorded as an adjustment to accumulated other comprehensive income. If the Company determines that any future valuation adjustment was other-than-temporary, it would record a charge to net income as appropriate.

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(Unaudited)

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at August 2, 2008 were as follows:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
ASSETS:				
Available-for-sale securities (including auction-rate securities)	$ 8,355	$ 45,891	$ -	$ 54,246
Trading securities (including mutual funds)	4,830	-	-	4,830
Totals	$ 13,185	$ 45,891	$ -	$ 59,076

Auction-rate securities included in Level 1 represent securities which have a known upcoming redemption as of August 2, 2008. Auction-rate securities included in Level 2 represent securities which have not experienced a successful auction subsequent to February 2, 2008. The fair market value for these securities was determined by applying a discount to par value based on auction prices for similar securities that had most recently experienced a successful auction subsequent to February 2, 2008. Prior to fiscal 2008, the fair value for these securities had been based on quoted market prices, which were readily available at that time.

6. <u>Comprehensive Income</u>

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	
	August 2, 2008	August 4, 2007
Net income	$ 22,276	$ 11,792
Changes in net unrealized losses on investments in auction-rate-securities, net of taxes of $169 and $0	(288)	-
Comprehensive Income	$ 21,988	$ 11,792

	Twenty-six Weeks Ended	
	August 2, 2008	August 4, 2007
Net income	$ 40,993	$ 23,985

Changes in net unrealized losses on investments in auction-rate-securities, net of taxes of $573 and $0		(976)		-
Comprehensive Income	$	40,017	$	23,985

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THE BUCKLE, INC.
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(Dollar Amounts in Thousands Except Share and Per Share Amounts)
(Unaudited)

7. Other Income

The following table summarizes the Company's Other Income for the thirteen and twenty-six week periods included in the statements of income:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Interest/dividends from investments	$ 1,915	$ 2,173	$ 4,147	$ 4,059
Insurance proceeds	69	-	69	162
Miscellaneous	65	87	153	162
Other Income, net	$ 2,049	$ 2,260	$ 4,369	$ 4,383

8. Supplemental Cash Flow Information

The Company had non-cash investing activities during the twenty-six week periods ended August 2, 2008 and August 4, 2007 of $184 and $610, 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 period. 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 twenty-six week periods August 2, 2008 and August 4, 2007 of $18,944 and $12,806, respectively.

9. Stock-Based Compensation

The Company has several stock option plans which allow for granting of stock options to employees, executives, and directors; as described more fully in the notes included in the Company's 2007 Annual Report. 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.

During fiscal 2008, the Company granted 140,050 shares of non-vested common stock under its 2005 Restricted Stock Plan. These grants resulted in $657 and $1,314 of compensation expense recognized on a graded vesting basis during the thirteen and twenty-six week periods ended August 2, 2008, respectively. The shares will 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 based on growth in fiscal 2008 pre-bonus, pre-tax net income.

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During fiscal 2007, the Company granted 139,800 shares of non-vested common stock under its 2005 Restricted Stock Plan. These grants resulted in $305 and $610 of compensation expense recognized on a graded vesting basis during the thirteen and twenty-six week periods ended August 2, 2008, respectively. The same grants resulted in $527 and $1,055 of compensation expense during the thirteen and twenty-six week periods ended August 4, 2007. Due to participants terminating their employment prior to the vesting date, 400 of these shares were forfeited to date. Upon certification by the Compensation Committee that the Company achieved its performance targets for fiscal 2007, 20% of the non-forfeited shares vested on March 24, 2008, with the remaining non-forfeited shares vesting 20% on January 31, 2009, 30% on January 30, 2010, and 30% on January 29, 2011.

During fiscal 2006, the Company granted 204,000 shares of non-vested common stock under its 2005 Restricted Stock Plan. These grants resulted in $188 and $377 of compensation expense recognized on a graded vesting basis during the thirteen and twenty-six week periods ended August 2, 2008, respectively. The same grants resulted in $293 and $593 of compensation expense during the thirteen and twenty-six week periods ended August 4, 2007. Due to participants terminating their employment prior to the vesting date, 8,610 of these shares were forfeited to date. An initial 20% of the non-forfeited shares from this grant vested on March 19, 2007, based upon certification that the Company had achieved its performance targets for fiscal 2006, another 20% vested on February 2, 2008, and the remaining non-forfeited shares will vest 30% on January 31, 2009 and 30% on January 30, 2010.

During fiscal 2005, the Company granted 116,250 shares of non-vested common stock under its 2005 Restricted Stock Plan. These grants resulted in $149 and $298 of compensation expense recognized on a graded vesting basis during the thirteen and twenty-six week periods ended August 2, 2008, respectively. The same grants resulted in $145 and $293 of compensation expense during the thirteen and twenty-six week periods ended August 4, 2007. Due to participants terminating their employment prior to the vesting date, 840 of these shares were forfeited to date and the vesting for 5,100 of these shares was accelerated. Upon certification by the Compensation Committee that the Company achieved its performance target for fiscal 2005, an initial 20% of the non-forfeited shares vested on March 24, 2006, an additional 20% vested on February 3, 2007, and 30% vested on February 2, 2008. The remaining 30% of non-forfeited shares will vest on January 31, 2009.

In total, the Company recognized $1,299 and $2,599 of compensation expense related to outstanding shares of non-vested stock during the thirteen and twenty-six week periods ended August 2, 2008, respectively. The Company recognized $965 and $1,941 of compensation expense during the thirteen and twenty-six week periods ended August 4, 2007.

As of August 2, 2008, 424,821 shares were available for grant under the various stock option plans, of which 301,889 were available for grant to executive officers. Also as of August 2, 2008, 209,750 shares were available for grant under the Company's 2005 Restricted Stock Plan, all of which were available for grant to executive officers. On May 28, 2008, shareholders also approved the Company's 2008 Director Restricted Stock Plan. The plan is designed to replace the annual stock option grants historically made to non-employee directors under the Company's 1993 Director Stock Option Plan with annual grants of restricted shares beginning with the grants scheduled to be made on the first day of fiscal 2009. A total of 60,000 shares have been reserved for issuance under the plan.

THE BUCKLE, INC.
NOTES TO FINANCIAL STATEMENTS
THIRTEEN and TWENTY-SIX WEEKS ENDED AUGUST 2, 2008 AND AUGUST 4, 2007
(Dollar Amounts in Thousands Except Share and Per Share Amounts)
(Unaudited)

Stock options granted during the first two quarters of fiscal 2008 and 2007 were granted under the Company's 1993 Director Stock Option Plan. Grants were made with an exercise price equal to the market value of the Company's common stock on the date of grant and a contractual term of ten years. Options granted under the 1993 Director Stock Option Plan typically vest over a period of three years.

The Company accounts for stock-based compensation in accordance with FASB Statement No. 123 (revised 2004) ("SFAS 123(R)"), *Share-Based Payment*. Compensation expense was recognized during the first two quarters of fiscal 2008 and 2007 for new awards, based on the grant date fair value, as well as for the portion of awards granted in fiscal years prior to SFAS 123(R) 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. The Company recognized $57 and $199 of stock option compensation expense during the thirteen and twenty-six week periods ended August 2, 2008, respectively. This compares to $45 and $202 of stock option compensation expense for the thirteen and twenty-six week periods ended August 4, 2007.

In the first quarter of fiscal 2007, stock option compensation expense was allocated to cost of sales, selling expenses, and general and administrative expenses in a method similar to that of allocating accrued incentive bonus expense. For all periods subsequent to the first quarter of fiscal 2007, however, it has been included in general and administrative expenses.

SFAS 123(R) 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 statement of cash flows. For the twenty-six week periods ended August 2, 2008 and August 4, 2007, the excess tax benefit realized from exercised stock options was $6,419 and $5,048, respectively.

The weighted average grant date fair value of options granted during the twenty-six weeks ended August 2, 2008 and August 4, 2007 was $12.61 and $12.81 per option, respectively. The fair value of options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2008	**2007**
Risk-free interest rate *(1)*	3.10%	4.80%
Dividend yield *(2)*	2.40%	2.40%
Expected volatility *(3)*	33.0%	39.0%
Expected lives - years *(4)*	7.0	7.0

(1) Based on the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected lives of stock options.

(2) Based on expected dividend yield as of the date of grant.

(3) Based on historical volatility of the Company's common stock over a period consistent with the expected lives of options.

(4) Based on historical and expected exercise behavior.

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NOTES TO FINANCIAL STATEMENTS
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(Unaudited)

A summary of the Company's stock-based compensation activity related to stock options for the twenty-six week period ended August 2, 2008 is as follows:

		2008		
	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life**	**Aggregate Intrinsic Value**
Outstanding - beginning of year	2,057,228	$ 12.72		
Granted	27,000	42.02		
Expired/forfeited	(169)	15.98		
Exercised	(669,725)	13.25		
Outstanding - end of quarter	1,414,334	$ 13.02	4.20 years	$ 52,894
Exercisable - end of quarter	1,374,841	$ 12.36	4.07 years	$ 52,332

The total intrinsic value of options exercised during the twenty-six week periods ended August 2, 2008 and August 4, 2007, respectively, was $21,764 and $15,387. As of August 2, 2008, there was $372 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 2.0 years.

A summary of the Company's stock-based compensation activity related to grants of non-vested shares of common stock for the twenty-six week period ended August 2, 2008 is as follows:

	2008	
	Shares	**Weighted Average Grant Date Fair Value**
Non-Vested - beginning of year	289,615	$ 28.44
Granted	140,050	42.02
Forfeited	(100)	33.87
Vested	(27,880)	33.87
Non-Vested - end of quarter	401,685	$ 32.79

As of August 2, 2008, there was $6,929 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 2.1 years. The total fair value of shares vested during the twenty-six week periods ended August 2, 2008 and August 4, 2007 was $1,341 and $1,372, respectively.

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NOTES TO FINANCIAL STATEMENTS
THIRTEEN and TWENTY-SIX WEEKS ENDED AUGUST 2, 2008 AND AUGUST 4, 2007
(Dollar Amounts in Thousands Except Share and Per Share Amounts)
(Unaudited)

10. Recently Issued Accounting Pronouncements

Effective February 3, 2008, the Company adopted the provisions of FASB Statement No. 157 ("SFAS 157"), *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 apply to all financial instruments that are being measured and reported on a fair value basis. In addition, in February 2008, FASB issued FASB Staff Position ("FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The partial adoption of SFAS 157 did not have any impact on the Company's financial position or results of operations.

Effective February 3, 2008, the Company adopted the provisions of FASB Statement No. 159 ("SFAS 159"), *The Fair Value Option for Financial Assets and Financial Liabilities*. This standard provides an option for companies to report selected financial assets and liabilities at fair value. Although the Company adopted the provisions of SFAS 159 effective with the beginning of the Company's 2008 fiscal year, it did not elect the fair value option for any financial instruments or other items held by the Company. Therefore, the adoption of SFAS 159 did not have any impact on the Company's financial position or results of operations.

11. Insurance Proceeds

During the second quarter of fiscal 2008, one of the Company's corporate aircrafts was destroyed in a tornado. The Company received $11.5 million of insurance proceeds, which is included in proceeds from sale of property and equipment in the Statements of Cash Flows. The Company recorded a $3.0 million gain from the involuntary conversion of the aircraft, which is included in general and administrative expenses.

THE BUCKLE, INC.
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.

Net 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.

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

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 and twenty-six week periods ended August 2, 2008, and August 4, 2007:

	Percentage of Net Sales Thirteen Weeks Ended		**Percentage Increase/**	**Percentage of Net Sales Twenty-six Weeks Ended**		**Percentage Increase/**
	Aug.2, 2008	**Aug.4, 2007**	**(Decrease)**	**Aug.2, 2008**	**Aug.4, 2007**	**(Decrease)**
Net sales	100.0%	100.0%	36.6%	100.0%	100.0%	34.5%
Cost of sales (including buying, distribution and occupancy costs)	58.6%	62.6%	27.8%			