BUCKLE INC
Form 10-Q
September 13, 2018

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 4, 2018

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

____
(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 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 þ No o

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

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

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The number of shares outstanding of the Registrant's Common Stock, $0.01 par value, as of September 7, 2018, was 49,018,195.

THE BUCKLE, INC.

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THE BUCKLE, INC.

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

ASSETS	August 4, 2018	February 3, 2018
CURRENT ASSETS:		
Cash and cash equivalents	$168,949	$165,086
Short-term investments	51,600	50,833
Receivables	12,105	8,588
Inventory	127,899	118,007
Prepaid expenses and other assets	18,855	18,070
Total current assets	379,408	360,584
PROPERTY AND EQUIPMENT	460,367	459,043
Less accumulated depreciation and amortization	(319,141)	(309,497)
	141,226	149,546
LONG-TERM INVESTMENTS	17,300	21,453
OTHER ASSETS	7,158	6,533
Total assets	$545,092	$538,116
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$46,217	$29,387
Accrued employee compensation	11,852	22,307
Accrued store operating expenses	21,289	15,646
Gift certificates redeemable	14,103	18,202
Income taxes payable	—	12,364
Total current liabilities	93,461	97,906
DEFERRED COMPENSATION	15,784	15,154
DEFERRED RENT LIABILITY	31,740	33,808
Total liabilities	140,985	146,868
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common stock, authorized 100,000,000 shares of $.01 par value; 49,018,195 and 48,816,170 shares issued and outstanding at August 4, 2018 and February 3, 2018, respectively	490	488
Additional paid-in capital	147,173	144,279
Retained earnings	256,444	246,570
Accumulated other comprehensive loss	—	(89)
Total stockholders' equity	404,107	391,248

Total liabilities and stockholders' equity	$545,092	$538,116

See notes to unaudited condensed consolidated financial statements.

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THE BUCKLE, INC.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
SALES, Net of returns and allowances	$201,080	$195,650	$405,977	$407,901
COST OF SALES (Including buying, distribution, and occupancy costs)	122,149	121,511	247,355	252,045
Gross profit	78,931	74,139	158,622	155,856
OPERATING EXPENSES:				
Selling	47,896	46,679	93,749	93,597
General and administrative	10,874	10,045	21,452	19,806
	58,770	56,724	115,201	113,403
INCOME FROM OPERATIONS	20,161	17,415	43,421	42,453
OTHER INCOME, Net	972	899	2,459	1,834
INCOME BEFORE INCOME TAXES	21,133	18,314	45,880	44,287
PROVISION FOR INCOME TAXES	5,474	6,831	11,883	16,519
NET INCOME	$15,659	$11,483	$33,997	$27,768
EARNINGS PER SHARE:				
Basic	$0.32	$0.24	$0.70	$0.58
Diluted	$0.32	$0.24	$0.70	$0.57
Basic weighted average shares	48,379	48,218	48,379	48,218
Diluted weighted average shares	48,592	48,310	48,571	48,327

See notes to unaudited condensed consolidated financial statements.

THE BUCKLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)
(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
NET INCOME	$15,659	$11,483	$33,997	$27,768
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Change in unrealized loss on investments, net of tax of $31, $2, $31, and $2, respectively	89	3	89	3
Other comprehensive income	89	3	89	3
COMPREHENSIVE INCOME	$15,748	$11,486	$34,086	$27,771

See notes to unaudited condensed consolidated financial statements.

THE BUCKLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(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 2018						
BALANCE, February 4, 2018	48,816,170	$ 488	$144,279	$246,570	$ (89)	$391,248
Net income	—	—	—	33,997	—	33,997
Dividends paid on common stock, ($0.50 per share)	—	—	—	(24,512)	—	(24,512)
Issuance of non-vested stock, net of forfeitures	202,025	2	(2)	—	—	—
Amortization of non-vested stock grants, net of forfeitures	—	—	2,896	—	—	2,896
Change in unrealized loss on investments, net of tax	—	—	—	—	89	89
Cumulative effect of change in accounting upon adoption of ASC Topic 606	—	—	—	389	—	389
BALANCE, August 4, 2018	49,018,195	$ 490	$147,173	$256,444	$ —	$404,107
FISCAL 2017						
BALANCE, January 29, 2017	48,622,780	$ 486	$139,398	$290,737	$ (82)	$430,539
Net income	—	—	—	27,768	—	27,768
Dividends paid on common stock, ($0.50 per share)	—	—	—	(24,423)	—	(24,423)
Issuance of non-vested stock, net of forfeitures	221,920	2	(2)	—	—	—
Amortization of non-vested stock grants, net of forfeitures	—	—	3,226	—	—	3,226
Change in unrealized loss on investments, net of tax	—	—	—	—	3	3
BALANCE, July 29, 2017	48,844,700	$ 488	$142,622	$294,082	$ (79)	$437,113

See notes to unaudited condensed consolidated financial statements.

THE BUCKLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$33,997	$27,768
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	13,917	15,785
Amortization of non-vested stock grants, net of forfeitures	2,896	3,226
Deferred income taxes	(750)	(1,193)
Other	524	395
Changes in operating assets and liabilities:		
Receivables	993	(145)
Inventory	(10,196)	4,023
Prepaid expenses and other assets	(785)	(1,727)
Accounts payable	17,499	14,962
Accrued employee compensation	(10,455)	(12,776)
Accrued store operating expenses	5,643	1,633
Gift certificates redeemable	(4,099)	(5,501)
Income taxes payable	(16,874)	(17,114)
Deferred rent liabilities and deferred compensation	(1,438)	(289)
Net cash flows from operating activities	30,872	29,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,097)	(7,167)
Change in other assets	94	61
Purchases of investments	(25,388)	(20,655)
Proceeds from sales/maturities of investments	28,894	22,215
Net cash flows from investing activities	(2,497)	(5,546)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(24,512)	(24,423)
Net cash flows from financing activities	(24,512)	(24,423)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,863	(922)
CASH AND CASH EQUIVALENTS, Beginning of period	165,086	196,536
CASH AND CASH EQUIVALENTS, End of period	$168,949	$195,614

See notes to unaudited condensed consolidated financial statements.

THE BUCKLE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THIRTEEN AND TWENTY-SIX WEEKS ENDED AUGUST 4, 2018 AND JULY 29, 2017
(Dollar Amounts in Thousands Except Share and Per Share Amounts)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated 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 consolidated financial statements for the fiscal year ended February 3, 2018, included in The Buckle, Inc.'s 2017 Form 10-K. The condensed consolidated balance sheet as of February 3, 2018 is derived from audited financial statements.

For purposes of this report, unless the context otherwise requires, all references herein to the “Company”, “Buckle”, “we”, “us”, or similar terms refer to The Buckle, Inc. and its subsidiary.

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”).

There were no significant changes to the Company's significant accounting policies as disclosed in Note A to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018, except as set forth below.

Revenue Recognition - Retail store sales are recorded, net of expected returns, upon the purchase of merchandise by customers. Online sales are recorded, net of expected returns, when the merchandise is tendered for delivery to the common carrier. Shipping fees charged to customers are included in revenue and shipping costs are included in selling expenses. Merchandise returns are estimated based upon the historical average sales return percentage and recognized at the transaction value. The Company also recognizes a return asset and a corresponding adjustment to cost of sales for the Company's right to recover returned merchandise, which is measured at the estimated carrying value, less any expected recovery costs. The Company recognizes revenue from sales made under its layaway program upon delivery of the merchandise to the customer.

The Company records the sale of gift cards and gift certificates as a current liability and recognizes a sale when a customer redeems the gift card or gift certificate. Gift card and gift certificate breakage is recognized as revenue in proportion to the redemption pattern of customers by applying an estimated breakage rate. The estimated breakage rate is based on historical issuance and redemption patterns and is re-assessed by the Company on a regular basis. The Company recognizes a current liability for the down payment and subsequent installment payments made when merchandise is placed on layaway and recognizes layaways as a sale at the time the customer makes final payment and picks up the merchandise.

Sales tax collected from customers is excluded from revenue and is included as part of "accrued store operating expenses" on the Company's consolidated balance sheets.

The Company's Guest Loyalty program allows participating guests to earn points for every qualifying purchase, which (after achievement of certain point thresholds) are redeemable as a discount off a future purchase. Reported revenue is net of both current period reward redemptions and accruals for estimated future rewards earned under the Guest Loyalty program. A liability has been recorded for future rewards based on the Company's estimate of how many earned points will turn into rewards and ultimately be redeemed prior to expiration, which is included in "accrued store operating expenses."

Through partnership with Comenity Bank, the Company offers a private label credit card ("PLCC"). Customers with a PLCC are enrolled in our B-Rewards incentive program and earn points for every qualifying purchase made on their card. At the end of each rewards period, customers who have exceeded a minimum point threshold receive a reward to be redeemed on a future purchase. The B-Rewards program also provides other discount and promotional opportunities to cardholders on a routine basis. Reported revenue is net of both current period reward redemptions, current period discounts and promotions, and accruals for estimated future rewards earned under the B-Rewards program. A liability has been recorded for future rewards based on the Company's estimate of how many earned points will turn into rewards and ultimately be redeemed prior to expiration, which is included in "gift certificates redeemable" on the Company's consolidated balance sheets.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In preparation for the implementation of the new standard, the Company determined the adoption of Topic 606 would affect the timing of recognition and the income statement classification of gift card and gift certificate breakage, the timing of revenue recognition for sales of merchandise shipped to customers, and the presentation of the allowance for estimated sales returns. The Company adopted Topic 606 on February 4, 2018, using the modified retrospective transition method. Under this transition method, the prior period comparative information has not been adjusted and continues to be reported under Topic 605, with the cumulative effect of adopting the new standard recorded as a $389 adjustment increasing retained earnings as of February 4, 2018.

The effect of the adoption of ASU 2014-09 on our consolidated balance sheet as of August 4, 2018 was as follows:

	As Reported	Adjustments	Excluding Topic 606 Adjustments
Consolidated Balance Sheet Amounts			
Inventory	$127,899	$ 1,474	$ 126,425
Accrued store operating expenses	21,289	1,778	19,511
Accounts payable	46,217	(693)	46,910
Retained earnings	256,444	389	256,055

The adoption of ASU 2014-09 did not have a material impact on the Company's results of operations for either the thirteen or twenty-six week periods ended August 4, 2018. The adoption did, however, impact the income statement classification of gift card and gift certificate breakage. For the twenty-six week period ended August 4, 2018, the Company recognized $415 of gift card and gift certificate breakage as revenue. For the twenty-six week period ended July 29, 2017, the Company recognized $600 of breakage in "other income."

2. Revenues

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 segment. The Company sells its merchandise through its retail stores and e-Commerce platform. The Company had 455 stores located in 43 states throughout the United States as of August 4, 2018 and 463 stores in 44 states as of July 29, 2017. During the twenty-six week period ended August 4, 2018, the Company did not open any new stores, substantially remodeled 3 stores, and closed 2 stores; which includes 3 substantial remodels and 1 closed store during the second quarter. During the twenty-six week period ended July 29, 2017, the Company opened 1 new store, substantially remodeled 7 stores, and closed 5 stores; which includes 1 new store and 5 substantial remodels during the second quarter.

For the twenty-six week periods ended August 4, 2018 and July 29, 2017, online revenues accounted for 10.9% and 10.1%, respectively, of the Company's net sales. No sales to an individual customer or country, other than the United States, accounted for more than 10% of net sales.

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

Merchandise Group	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Denims	32.3 %	32.2 %	37.6 %	37.3 %
Tops (including sweaters)	34.6	33.9	32.4	31.9
Sportswear/Fashions	13.9	14.4	11.4	11.9
Accessories	9.7	10.3	9.0	9.3
Footwear	6.5	6.3	6.6	6.3
Casual bottoms	1.1	1.1	1.0	1.4
Outerwear	0.4	0.5	0.7	0.8
Other	1.5	1.3	1.3	1.1
	100.0%	100.0%	100.0%	100.0%

3. 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.

	Thirteen Weeks Ended August 4, 2018			Thirteen Weeks Ended July 29, 2017		
	Net Income	Weighted Average Shares (a)	Per Share Amount	Net Income	Weighted Average Shares (a)	Per Share Amount
Basic EPS	$15,659	48,379	$ 0.32	$11,483	48,218	$ 0.24
Effect of Dilutive Securities:						
Non-vested shares	—	213	—	—	92	—
Diluted EPS	$15,659	48,592	$ 0.32	$11,483	48,310	$ 0.24

	Twenty-Six Weeks Ended August 4, 2018			Twenty-Six Weeks Ended July 29, 2017		
	Net Income	Weighted Average Shares (a)	Per Share Amount	Net Income	Weighted Average Shares (a)	Per Share Amount
Basic EPS	$33,997	48,379	$ 0.70	$27,768	48,218	$ 0.58
Effect of Dilutive Securities:						
Non-vested shares	—	192	—	—	109	(0.01)
Diluted EPS	$33,997	48,571	$ 0.70	$27,768	48,327	$ 0.57

(a) Shares in thousands.

4. Investments

The following is a summary of investments as of August 4, 2018:

	Amortized Cost or Par Value	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Estimated Fair Value
Held-to-Maturity Securities:					
State and municipal bonds	$ 48,119	$ 19	$ (10)	$ —	$ 48,128
U.S. Treasury bonds	4,997	—	—	—	4,997
	$ 53,116	$ 19	$ (10)	$ —	$ 53,125
Trading Securities:					
Mutual funds	$ 14,279	$ 1,505	$ —	$ —	$ 15,784

The following is a summary of investments as of February 3, 2018:

	Amortized Cost or Par Value	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Estimated Fair Value
Available-for-Sale Securities:					
Auction-rate securities	$ 1,725	$ —	$ (120)	$ —	$ 1,605
Held-to-Maturity Securities:					
State and municipal bonds	$ 55,527	$ 9	$ (76)	$ —	$ 55,460
Trading Securities:					
Mutual funds	$ 13,746	$ 1,408	$ —	$ —	$ 15,154

The amortized cost and fair value of debt securities by contractual maturity as of August 4, 2018 is as follows:

	Amortized Cost	Fair Value
Held-to-Maturity Securities		
Less than 1 year	$ 51,600	$51,607
1 - 5 years	1,516	1,518
	$ 53,116	$53,125

As of February 3, 2018, $1,605 of available-for-sale securities are classified as long-term investments. As of August 4, 2018 and February 3, 2018 $1,516 and $4,694 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") are classified as available-for-sale and reported at fair market value. As of February 3, 2018, the reported investment amount is net of $120 of temporary impairment to account for the impairment of certain securities from their stated par value. The $120 temporary impairment is reported, net of tax, as an "accumulated other comprehensive loss" of $89 in stockholders' equity as February 3, 2018. The investments considered temporarily impaired, all of which had been in loss positions for over a year, were successfully redeemed during fiscal 2018 at par value plus accrued interest. As of February 3, 2018, all of the

Company's investments in ARS were classified in long-term investments.

5. Fair Value Measurements

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.

As of August 4, 2018 and February 3, 2018, 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 financial assets measured at fair value on a recurring basis are as follows:

	Fair Value Measurements at Reporting Date Using			
August 4, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading securities (including mutual funds)	$15,784	$ —	$ —	$15,784

	Fair Value Measurements at Reporting Date Using			
February 3, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Available-for-sale securities:				
Auction-rate securities	$—	$ 50	$ 1,555	$1,605

Trading securities (including mutual funds)	15,154	—	—	15,154
Totals	$15,154	$ 50	$ 1,555	$16,759

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 $120 of the Company's recorded temporary impairment as of February 3, 2018. The use of different assumptions would have resulted 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 are as follows:

	Twenty-Six Weeks Ended August 4, 2018 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Available-for-Sale Securities	Trading Securities	
	Auction-rate Securities	Mutual Funds	Total
Balance, beginning of year	$1,555	$ —	$1,555
Total gains and losses:			
Included in net income	—	—	—
Included in other comprehensive income	120	—	120
Purchases, Issuances, Sales, and Settlements:			
Sales	(1,675)	—	(1,675)
Balance, end of quarter	$—	$ —	$—

	Twenty-Six Weeks Ended July 29, 2017 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Available-for-Sale Securities	Trading Securities	
	Auction-rate Securities	Mutual Funds	Total
Balance, beginning of year	$1,625	$ —	$1,625
Total gains and losses:			
Included in net income	—	—	—
Included in other comprehensive income	5	—	5
Purchases, Issuances, Sales, and Settlements:			
Sales	(75)	—	(75)
Balance, end of quarter	$1,555	$ —	$1,555

There were no transfers of securities between Levels 1, 2, or 3 during the twenty-six week periods ended August 4, 2018 or July 29, 2017. The Company's policy is to recognize transfers in and transfers out as of the beginning of the reporting period in which the transfer occurred.

The carrying value of cash equivalents approximates fair value due to the low level of risk these assets present and their relatively liquid nature, particularly given their short maturities. The Company also holds certain financial instruments that are not carried at fair value on the condensed consolidated balance sheets, including held-to-maturity securities. Held-to-maturity securities consist primarily of state and municipal bonds. The fair values of these debt securities are based on quoted market prices and yields for the same or similar securities, which the Company determined to be Level 2 inputs. As of August 4, 2018, the fair value of held-to-maturity securities was $53,125 compared to the carrying amount of $53,116. As of February 3, 2018, the fair value of held-to-maturity securities was $55,460 compared to the carrying amount of $55,527.

The carrying values of receivables, accounts payable, accrued expenses, and other current liabilities approximates fair value because of their short-term nature. From time to time, the Company measures certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. These are typically store specific assets, which are reviewed for impairment when circumstances indicate impairment may exist due to the questionable recoverability of the carrying values of long-lived assets. If expected future cash flows related to a store’s assets are less than their carrying value, an impairment loss would be recognized for the difference between the carrying value and the estimated fair value of the store's assets. The fair value of the store's assets is estimated utilizing an income-based approach based on the expected cash flows over the remaining life of the store's lease. The amount of impairment related to long-lived assets was immaterial as of both August 4, 2018 and February 3, 2018.

6. Supplemental Cash Flow Information

The Company had non-cash investing activities during the twenty-six week periods ended August 4, 2018 and July 29, 2017 of ($24) and $151, respectively. The non-cash investing activity relates to the change in the balance of unpaid purchases of property, plant, and equipment included in accounts payable as of the end of the period. The liability for unpaid purchases of property, plant, and equipment included in accounts payable was $395 and $371 as of August 4, 2018 and February 3, 2018, respectively. Amounts reported as unpaid purchases are recorded as cash outflows from investing activities for purchases of property, plant, and equipment in the condensed consolidated 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 ended August 4, 2018 and July 29, 2017 of $29,506 and $34,826, respectively.

7. Stock-Based Compensation

The Company has several stock option plans which allow for granting of stock options to employees, executives, and directors. The Company has not granted any stock options since fiscal 2008 and there are currently no stock options outstanding. 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 August 4, 2018, 1,060,891 shares were available for grant under the Company’s various restricted stock plans, of which 1,015,517 shares were available for grant to executive officers.

Compensation expense was recognized during fiscal 2018 and fiscal 2017 for equity-based grants, based on the grant date fair value of the awards. 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 compensation expense related to grants of non-vested shares of common stock is as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Stock-based compensation expense, before tax	$1,412	$1,580	$2,896	$3,226
Stock-based compensation expense, after tax	$1,046	$995	$2,146	$2,032

Non-vested shares of common stock granted during the twenty-six week periods ended August 4, 2018 and July 29, 2017 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 are typically "performance based" and 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. Certain shares granted under the 2005 Plan, however, are "non-performance based" and vest over a period of four years without being subject to the achievement of performance targets. 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 twenty-six week period ended August 4, 2018 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-Vested - beginning of year	470,022	$ 24.63
Granted	374,050	19.60
Forfeited	(172,025)	20.96
Vested	(33,006)	20.44
Non-Vested - end of quarter	639,041	$ 22.89

As of August 4, 2018, there was $7,644 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 4, 2018 and July 29, 2017 was $698 and $776, respectively. During the twenty-six week period ended August 4, 2018, 145,325 shares (representing one-half of the "performance based" shares granted during fiscal 2017 under the 2005 Restricted Stock Plan) were forfeited because the Company did not achieve all of the performance targets established for the fiscal 2017 grants.

8. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU replaces the existing guidance in ASC 840, Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and requires retrospective application. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations and financial position, but does expect that it will result in a significant increase in both assets and liabilities related to the Company's leases for retail store locations.

9. Commitments and Contingencies

Data Security Incident

On June 16, 2017, the Company announced that it had become aware that it was a victim of a data security incident in which a criminal entity accessed certain guest credit card information following purchases at some of the Company's retail stores between October 28, 2016 and April 14, 2017. The Company immediately launched a thorough investigation and engaged leading third-party forensic experts to review its systems and secure the affected part of its network. Through that investigation, the Company learned that its store payment data systems were infected with a form of malicious code, which was quickly removed. The Company has taken actions that it believes have contained the issue and has implemented additional security enhancements, and will continue to work vigilantly to pursue this matter to resolution. Based on the forensic investigation, the Company believes that no social security numbers, email addresses, or physical addresses were obtained by those criminally responsible. There is also no evidence that the buckle.com website or buckle.com guests were impacted.

Buckle self-reported the issue to the payment card brands and cooperated fully with the card brands, their forensic experts, and law enforcement during the investigation. At this time, it is not possible to reasonably estimate the amount of any potential assessments, fines, penalties, or other liabilities in connection with this incident.

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 condensed consolidated financial statements and notes thereto of the Company included in this Form 10-Q. All references herein to the “Company”, “Buckle”, “we”, “us”, or similar terms refer to The Buckle, Inc. and its subsidiary. 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 condensed consolidated 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 included in 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.

RESULTS OF OPERATIONS

The following table sets forth certain financial data expressed as a percentage of net sales and the percentage change in the dollar amount of such items compared to the prior period:

	Percentage of Net Sales For Thirteen Weeks Ended		Percentage	Percentage of Net Sales For Twenty-Six Weeks Ended		Percentage
	August 4, 2018	July 29, 2017	Increase/(Decrease)	August 4, 2018	July 29, 2017	Increase/(Decrease)
Net sales	100.0 %	100.0 %	2.8 %	100.0 %	100.0 %	(0.5)%
Cost of sales (including buying, distribution, and occupancy costs)	60.8 %	62.1 %	0.5 %	60.9 %	61.8 %	(1.9)%
Gross profit	39.2 %	37.9 %	6.5 %	39.1 %	38.2 %	1.8 %
Selling expenses	23.8 %	23.9 %	2.6 %	23.1 %	22.9 %	0.2 %
General and administrative expenses	5.4 %	5.1 %	8.3 %	5.3 %	4.9 %	8.3 %
Income from operations	10.0 %	8.9 %	15.8 %	10.7 %	10.4 %	2.3 %
Other income, net	0.5 %	0.5 %	8.0 %	0.6 %	0.5 %	34.0 %
Income before income taxes	10.5 %	9.4 %	15.4 %	11.3 %	10.9 %	3.6 %
Provision for income taxes	2.7 %	3.5 %	(19.9)%	2.9 %	4.1 %	(28.1)%
Net income	7.8 %	5.9 %	36.4 %	8.4 %	6.8 %	22.4 %

Net sales increased from $195.7 million in the second quarter of fiscal 2017 to $201.1 million in the second quarter of fiscal 2018, a 2.8% increase. Comparable store net sales for the thirteen week quarter ended August 4, 2018 increased 1.4% from comparable store net sales for the prior year thirteen week period ended August 5, 2017. Due to the 53rd week in fiscal 2017, total net sales for the thirteen week fiscal quarter ended August 4, 2018 are compared to the prior year thirteen week fiscal quarter ended July 29, 2017, while comparable store sales for the quarter are compared to the corresponding thirteen week period ended August 5, 2017. The comparable store sales increase for the quarter was primarily attributable to an approximate 1.0% increase in the number of transactions at comparable stores during the quarter and a 4.1% increase in the number of units sold per transaction; which were partially offset by a 3.0% decrease in the average retail price per piece of merchandise sold. Total net sales for the quarter were also impacted by the Company's closing of 12 stores during fiscal 2017 and 2 stores during the first two quarters of fiscal 2018. Online sales for the quarter increased 8.6% to $21.2 million for the thirteen week period ended August 4, 2018 compared to $19.5 million for the thirteen week period ended July 29, 2017.

Net sales decreased from $407.9 million for the first two quarters of fiscal 2017 to $406.0 million for the first two quarters of fiscal 2018, a 0.5% decrease. Comparable store net sales for the twenty-six week period ended August 4, 2018 decreased 0.9% from comparable store net sales for prior year twenty-six week period ended August 5, 2017. Due to the 53rd week in fiscal 2017, total net sales for the twenty-six week fiscal period ended August 4, 2018 are compared to the prior year twenty-six week fiscal period ended July 29, 2017, while comparable store sales are compared to the corresponding twenty-six week period ended August 5, 2017. The comparable store sales decline for the twenty-six week period was primarily attributable to a 1.9% reduction in the average retail price per piece of merchandise sold during the period and a slight reduction in the number of transactions at comparable stores during the period; which were partially offset by a 1.7% increase in the average number of units sold per transaction. Total net sales for the year-to-date period were also impacted by the Company's closing of 12 stores during fiscal 2017 and 2 stores during the first two quarters of fiscal 2018. Online sales for the year-to-date period increased 7.3% to $44.3 million for the twenty-six week period ended August 4, 2018 compared to $41.3 million for the twenty-six week period ended July 29, 2017. Average sales per square foot increased 0.8% from $154.56 for the twenty-six week period ended July 29, 2017 to $155.81 for the twenty-six week period ended August 4, 2018. Total square footage as of August 4, 2018 was 2.339 million compared to 2.373 million as of July 29, 2017.

The Company's average retail price per piece of merchandise sold decreased $1.31, or 3.0%, during the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017. This $1.31 decrease was primaril