

SYMS CORP  
Form 10-Q  
January 04, 2007

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

**FORM 10-Q**

(Mark One)

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

for the quarterly period ended **November 25, 2006**

OR

**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 1-8546**

**SYMS CORP**

(Exact Name of Registrant as Specified in Its Charter)

**NEW JERSEY**

(State or Other Jurisdiction of  
Incorporation or Organization)

**22-2465228**

(I.R.S. Employer Identification No.)

**Syms Way, Secaucus, New Jersey**  
(Address of Principal Executive Offices)

**07094**  
(Zip Code)

**(201) 902-9600**

(Registrant's Telephone Number, Including Area Code)

**Not applicable**

(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  No

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):

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At December 29, 2006 the latest practicable date, there were 14,404,721 shares outstanding of Common Stock, par value \$0.05 per share.

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**SYMS CORP AND ITS SUBSIDIARY**


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## Condensed Consolidated Balance Sheets

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(In thousands)

	November 25, 2006	February 25, 2006	November 26, 2005
	(Unaudited)	(See Note)	(Unaudited)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 36,729	\$ 30,007	\$ 23,724
Receivables	3,910	2,578	4,785
Merchandise inventories	81,578	57,469	84,553
Deferred income taxes	6,324	6,325	6,382
Assets held for sale		5,882	7,900
Prepaid expenses and other current assets	6,277	6,056	5,966
<b>TOTAL CURRENT ASSETS</b>	<b>134,818</b>	<b>108,317</b>	<b>133,310</b>
PROPERTY AND EQUIPMENT - Net	104,290	106,702	105,044
DEFERRED INCOME TAXES	5,511	5,511	7,213
OTHER ASSETS	19,627	18,009	17,132
<b>TOTAL ASSETS</b>	<b>\$ 264,246</b>	<b>\$ 238,539</b>	<b>\$ 262,699</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 38,771	\$ 14,916	\$ 37,838
Accrued expenses	12,645	7,631	11,696
Accrued insurance	266	313	458
Obligations to customers	3,810	3,625	3,391
<b>TOTAL CURRENT LIABILITIES</b>	<b>55,492</b>	<b>26,485</b>	<b>53,383</b>
OTHER LONG TERM LIABILITIES	1,668	1,520	1,542
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Preferred stock, par value; \$100 per share. Authorized 1,000 shares; none outstanding			
Common stock, par value \$0.05 per share. Authorized 30,000 shares; 14,405 shares (net of 3,879 treasury shares) outstanding on November 25, 2006, 14,934 shares outstanding (net of 3,328 treasury shares) as of February 25, 2006 and 14,934 shares outstanding (net of 3,328 treasury shares) outstanding as of November 26, 2005.	770	769	769
Additional paid-in capital	16,814	16,656	16,300
Treasury stock	(39,625)	(29,649)	(29,649)
Retained earnings	229,127	222,758	220,354

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TOTAL SHAREHOLDERS EQUITY	207,086	210,534	207,774
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 264,246	\$ 238,539	\$ 262,699

- (1) The balance sheet at February 25, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See Notes to Condensed Consolidated Financial Statements

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## Condensed Consolidated Statements of Operations

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(In thousands, except per share amounts)

	13 Weeks Ended		39 Weeks Ended	
	November 25, 2006	November 26, 2005	November 25, 2006	November 26 2005
	(Unaudited)		(Unaudited)	
Net sales	\$ 72,767	\$ 74,694	\$ 201,643	\$ 203,583
Cost of goods sold	42,552	44,856	120,532	120,918
Gross profit	30,215	29,838	81,111	82,665
Expenses:				
Selling, general and administrative	17,978	18,323	55,117	55,058
Advertising	2,976	3,266	7,111	7,015
Occupancy	4,237	4,371	13,346	12,979
Depreciation and amortization	1,983	2,179	6,221	6,596
(Gain) on sale of assets			(10,424)	
Income from operations	3,041	1,699	9,740	1,017
Other income	(59)	(25)	(226)	(50)
Interest (income) expense - net	(509)	(210)	(1,500)	(624)
Income before income taxes	3,609	1,934	11,466	1,691
Provision (benefit) for income taxes	1,605	754	5,097	659
Net income	\$ 2,004	\$ 1,180	\$ 6,369	\$ 1,032
Net income per share - basic	\$ 0.14	\$ 0.08	\$ 0.44	\$ 0.07
Weighted average shares outstanding - basic	14,404	14,963	14,608	14,981
Net income per share - diluted	\$ 0.14	\$ 0.08	\$ 0.42	\$ 0.07
Weighted average shares outstanding - diluted	14,823	15,285	15,001	15,295

See Notes to Condensed Consolidated Financial Statements

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## Condensed Consolidated Statements of Cash Flows

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(In thousands)

	39 Weeks Ended	
	November 25, 2006	November 26, 2005
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 6,369	\$ 1,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,221	6,596
Deferred income taxes	1	(1)
(Gain) on sale of assets	(10,437)	(7)
(Increase) decrease in operating assets:		
Receivables	(1,332)	(3,466)
Merchandising inventories	(24,109)	(18,429)
Prepaid expenses and other current assets	(221)	41
Other assets	(1,609)	(1,193)
Increase (decrease) in operating liabilities:		
Accounts payable	23,855	23,675
Accrued expenses	4,967	3,749
Obligations to customers	185	8
Other long term liabilities	148	(68)
Net cash provided by operating activities	4,038	11,937
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for property and equipment	(3,795)	(2,035)
Proceeds from sale of land and building	16,296	7
Net cash provided by (used in) investing activities	12,501	(2,028)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of dividends		(15,028)
Exercise of stock options	159	810
Stock repurchase	(9,976)	(3,636)
Net cash (used in) financing activities	(9,817)	(17,854)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,722</b>	<b>(7,945)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>30,007</b>	<b>31,669</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 36,729</b>	<b>\$ 23,724</b>

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SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 152	\$ 109
Income taxes paid (net of refunds received)	\$ 3,570	\$ 399

See Notes to Condensed Consolidated Financial Statements



## Notes to Condensed Consolidated Financial Statements 13 and 39 Weeks Ended November 25, 2006 and November 26, 2005

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### (Unaudited)

#### Note 1 - The Company

Syms Corp (the Company) operates a chain of 36 off-price retail clothing stores located throughout the United States in Northeastern and Middle Atlantic regions and in the Midwest, Southeast and Southwest. Each Syms store offers a broad range of first quality, in season merchandise bearing nationally recognized designer or brand-name labels for men, women and children.

#### Note 2 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the 13 and 39 week periods ended November 25, 2006 are not necessarily indicative of the results that may be expected for the entire fiscal year ending March 3, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended February 26, 2005.

#### Note 3 - Accounting Period

The Company's fiscal year ends the Saturday nearest to the end of February. The fiscal year ending March 3, 2007 will be comprised of 53 weeks. The fiscal year ended February 25, 2006 was comprised of 52 weeks.

#### Note 4 - Merchandise Inventories

Merchandise inventories are stated at the lower of cost (first in, first out) or market, as determined by the retail inventory method.

#### Note 5 - Bank Credit Facilities

The Company has a revolving credit agreement with a bank for a line of credit not to exceed \$30,000,000 through May 1, 2008. The agreement contains financial covenants, with respect to consolidated tangible net worth, as defined as working capital and maximum capital requirements, including dividends (defined to include cash repurchases of capital stock), as well as other financial ratios. The Company is in compliance with all covenants as of November 25, 2006. Except for funds provided from this revolving credit agreement, the Company has satisfied its operating and capital expenditure requirements, including those for the operations and expansion of stores, from internally generated funds. As of November 25, 2006, February 25, 2006 and November 26, 2005, there were no outstanding borrowings under this agreement. At November 25, 2006, February 25, 2006 and November 26, 2005, the Company had \$829,794, \$1,189,234 and \$682,957 respectively, in outstanding letters of credit under this agreement.

#### Note 6 - Net Income (Loss) Per Share

In accordance with SFAS 128, basic net income or loss per share has been computed based upon the weighted average of the common shares outstanding. Diluted net income per share gives effect to outstanding stock options.

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Net income per share has been computed as follows:

	13 Weeks Ended		39 Weeks Ended	
	Nov. 25, 2006	Nov. 26, 2005	Nov. 25, 2006	Nov. 26, 2005
<b>Basic net income per share:</b>				
Net income	2,004	1,180	6,369	1,032
Average shares outstanding	14,404	14,963	14,608	14,981
Basic net income per share	.14	0.08	.44	0.07
<b>Diluted net income per share:</b>				
Net income	2,004	1,180	6,369	1,032
Average shares outstanding	14,404	14,963	14,608	14,981
Stock options	419	322	393	314
Total average equivalent shares	14,823	15,285	15,001	15,295
Diluted net income per share	.14	0.08	.42	0.07

Options to purchase 715,693 and 739,621 shares of common stock at prices ranging from \$5.21 to \$15.01 per share were outstanding as of November 25, 2006 and November 26, 2005, respectively.

#### Note 7 Recent Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 which is effective for fiscal years beginning after September 15, 2006. The statement was issued to clarify the application of FASB Statement No. 133 to beneficial interests in securitized financial assets and to improve the consistency of accounting for similar financial instruments, regardless of the form of the instruments. We have evaluated the new statement and have determined that it will not have a significant impact on the determination of our financial results.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 which is effective for fiscal years beginning after September 15, 2006. This statement was issued to simplify the accounting for servicing rights and to reduce the volatility that results from using different measurement attributes. We have evaluated the new statement and have determined that it will not have a significant impact on the determination of our financial results.

In June 2006, the FASB issued Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109. The objective of this interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for the fiscal years beginning after December 15, 2006. The Company is currently evaluating the potential impact, if any, from the adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 defines fair value as 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. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 is not expected to have a material impact on the results of operations or the financial position of the Company.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R), which requires a business entity to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires a

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business entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The Company is currently evaluating the potential impact of the adoption of SFAS No. 158.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ( SAB 108 ), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 requires companies to evaluate the materiality of identified unadjusted errors on each financial statement and related financial statement disclosure. Financial statements would require adjustment when a misstatement is determined to be material. Correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. If a company determines that an adjustment to prior year financial statements is required upon adoption of SAB 108 and does not elect to restate its previous financial statements, then it must recognize the cumulative effect of applying SAB 108 in beginning balances of the affected assets and liabilities with a corresponding adjustment to the opening balance in retained earnings. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the potential impact, if any, from the adoption of SAB 108.

**Note 8 Accounting for Stock-Based Compensation**

The Company's Amended and Restated Stock Option and Appreciation Plan allows for the granting of incentive stock options, as defined in Section 422A of the Internal Revenue Code of 1986 (as amended), non-qualified stock options or stock appreciation rights. The plan requires that incentive stock options be granted at an exercise price not less than the fair market value of the Common Stock on the date the option is granted. The exercise price of the option for holders of more than 10% of the voting rights of the Company must be not less than 110% of the fair market value of the Common Stock on the date of grant. Non-qualified options and stock appreciation rights may be granted at any exercise price. The Company has reserved 1,500,000 shares of common stock for issuance thereunder. The Company is no longer issuing options under its Amended and Restated Incentive Stock Option and Appreciation Plan.

No option or stock appreciation rights may be granted under the Amended and Restated Incentive Stock Option Plan after July 28, 2013. The maximum exercise period for any option or stock appreciation right under the plan is ten years from the date the option is granted (five years for any optionee who holds more than 10% of the voting rights of the Company).

On July 14, 2005, at the annual meeting of shareholders of the Company, the shareholders of the Company approved the 2005 Stock Option Plan (the 2005 Plan ), which 2005 Plan was adopted by the Board of Directors of the Company on April 7, 2005 subject to shareholder approval. The 2005 Plan permits the grant of options, share appreciation rights, restricted shares, restricted share units, performance units, performance shares, cash-based awards and other share-based awards. Key employees, non-employee directors, and third party service providers of the Company who are selected by a committee designated by the Board of Directors of the Company are eligible to participate in the 2005 Plan. The maximum number of shares issuable under the Plan is 850,000, subject to certain adjustments in the event of changes to the Company's capital structure.

The 2005 Plan requires that incentive stock options be granted at an exercise price not less than the fair market value of the Common Stock on the date the option is granted. The exercise price of such options for holders of more than 10% of the voting stock of the Company must be not less than 110% of the fair market value of the Common Stock on the date of grant. The exercise price of non-qualified options and stock appreciation rights must not be less than fair market value.

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The maximum exercise period for any option or stock appreciation right under the 2005 Plan is ten years from the date the option is granted (five years for any incentive stock options issued to a person who holds more than 10% of the voting stock of the Company).

The 2005 Plan permits the Company to issue restricted shares, restricted share units, performance units, cash-based awards and other share-based awards with such term and conditions (including applicable vesting conditions) as the Company shall determine, subject to certain terms and conditions set forth in the 2005 Plan.

Effective February 25, 2006, the Company adopted the provisions of FAS No. 123(R), Share-Based Payment ( FAS123(R) ). Under FAS123(R), share-based compensation cost is measured at grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period. The Company adopted the provisions of FAS123(R) using a modified prospective application. Under this method, compensation cost is recognized for all share-based payments granted, modified or settled after the date of adoption, as well as for any unvested awards that were granted prior to the date of adoption. Prior periods are not revised for comparative purposes. Because the Company previously adopted only the pro forma disclosure provisions of SFAS 123, it will recognize compensation cost relating to the unvested portion of awards granted prior to the date of adoption using the same estimate of the grant-date fair value and the same attribution method used to determine the pro forma disclosures under SFAS 123, except that forfeitures rates will be estimated for all options, as required by FAS123(R).

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company's stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. There were no options granted during the nine months ended November 25, 2006, and all options previously issued are fully vested.

Stock option activity during the nine months ended November 25, 2006 is as follows:  
(In thousands, except per share amounts)

	Number Of options	Weighted Average Exercise Price	Weighted Average Remaining Contracted Term (years)	Aggregate Intrinsic Value
Outstanding at February 25, 2006	739	\$ 8.08		
Options granted				
Options exercised	(22)	\$ 7.24		
Options forfeited	(1)			
Options outstanding at November 25, 2006	716	\$ 8.11	3.30	\$ 7,865
Options exercisable at November 25, 2006	716	\$ 8.11	3.30	\$ 7,865

As of November 25, 2006, there was no total unrecognized stock-based compensation cost related to options granted under our plans that will be recognized in future periods.

Awards granted prior to the adoption of FAS 123(R) were accounted for under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ), and its related interpretations. Under this intrinsic value method there was no compensation expense recognized for the three month and nine month periods ended November 25, 2006 because all options had exercise prices equal to the market value of the underlying stock on the date of grant. The following table illustrates the effect on net income and net income per common share if the fair value method had been applied (in thousands except per share amounts):

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	<b>13 Weeks Ended 11/26/05</b>	<b>39 Weeks Ended 11/26/05</b>
Net income:	\$ 1,180	\$ 1,032
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(773)
Pro forma net income	\$ 1,180	\$ 259
Earnings per share:		
Basic, as reported	\$ 0.08	\$ 0.07
Basic, pro forma	\$ 0.08	\$ 0.02
Diluted, as reported	\$ 0.08	\$ 0.07
Diluted, pro forma	\$ 0.08	\$ 0.02

This pro forma information may not be representative of the amounts to be expected in future years as the fair value method of accounting prescribed by SFAS No. 123 has not been applied to options granted prior to fiscal 1996.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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### **Special Note Regarding Forward-Looking Statements**

This Quarterly Report (including but not limited to factors discussed below, in the Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as those discussed elsewhere in this Quarterly Report on Form 10-Q) includes forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended) and information relating to the Company that are based on the beliefs of the management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this Quarterly Report, the words anticipate, believe, estimate, expect, intend, plan, and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks, including among others general economic and market conditions, decreased consumer demand for the Company's products, possible disruptions in the Company's computer or telephone systems, possible work stoppages, or increases in labor costs, effects of competition, possible disruptions or delays in the opening of new stores or inability to obtain suitable sites for new stores, higher than anticipated store closings or relocation costs, higher interest rates, unanticipated increases in merchandise or occupancy costs and other factors which may be outside the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere described in this Quarterly Report and other reports filed with the Securities and Exchange Commission.

### **Critical Accounting Policies and Estimate**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in the financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual



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results will inevitably differ from our estimates. Such differences could be material to the consolidated financial statements.

The Company believes application of accounting policies, and the estimates inherently required by the policies, are reasonable. These accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, the Company has found the application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

The Company's accounting policies are more fully described in Note 1 to the Consolidated Financial Statements, located in the Annual Report on Form 10-K for the fiscal year ended February 26, 2005. The Company has identified certain critical accounting policies that are described below.

**Merchandise Inventory** - Inventories are valued at lower of cost or market using the retail first-in, first-out ( FIFO ) inventory method. Under the retail inventory method ( RIM ), the valuation of inventories at cost and the resulting gross margins are calculated by applying a calculated cost to retail ratio to the retail value of inventories. RIM is an averaging method that has been widely used in the retail industry due to its practicality. Additionally, it is recognized that the use of RIM will result in valuing inventories at the lower of cost or market if markdowns are currently taken as a reduction of the retail value of inventories. Inherent in the RIM calculation are certain significant management judgments and estimates including, among others, merchandise markon, markups, and markdowns, which significantly impact the ending inventory valuation at cost as well as resulting gross margins. Management believes that the Company's RIM and application of FIFO provides an inventory valuation which reasonably approximates cost using a first-in, first-out assumption and results in a carrying value at the lower of cost or market. If actual market conditions are less favorable than those projected by management, additional markdowns may be required.

**Long-Lived Assets** - In evaluation of the fair value and future benefits of long-lived assets, the Company performs analyses of the anticipated undiscounted future net cash flows of the related long-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the Company reduces the carrying value to its fair value, which is generally calculated using discounted cash flows. Various factors including future sales growth and profit margins are included in this analysis. To the extent these future projections or our strategies change, the conclusion regarding impairment may differ from the Company's current estimates.

**Deferred Tax Valuation Allowance** - The Company records a valuation allowance to reduce its deferred tax assets to the amount that is not likely to be realized. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of the Company's net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

**Self-Insurance Accruals** - The Company had been self-insured for workers' compensation liability claims. The Company is responsible for the payment of claims from prior years. In estimating the obligation associated with incurred losses, the Company utilizes loss development factors. These development factors utilize historical data to project incurred losses. Loss estimates are adjusted based upon actual claims settlements and reported claims.

### **Results of Operations (in thousands)**

*13 and 39 Weeks Ended November 25, 2006 Compared to 13 and 39 Weeks Ended November 26, 2005*

Net sales for the 13 weeks ended November 25, 2006 were \$72,767,000, a decrease of \$1,927,000 (2.6%) as compared to net sales of \$74,694,000 for the 13 weeks ended November 26, 2005. For the 39 weeks ended November 25, 2006 net sales decreased \$1,940,000 (1.0%) to \$201,643,000 as compared to the 39 weeks ended November 26, 2005. Comparable store net sales decreased 1.5% for the 13 weeks ended November 25, 2006 and .2% for the 39 weeks as compared to the comparable periods in the prior fiscal year. In our comparable store

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computation, we only include stores that have been opened for a period of at least 12 months and stores that were open during both fiscal years. We did not have any expansion in square footage in the 39 weeks ended November 25, 2006. The sales decrease in the 39 weeks ended November 25, 2006 is largely attributable to the closing of our store located in Rochester, New York.

Gross profit for the 13 weeks ended November 25, 2006 was \$30,215,000, an increase of \$377,000 (41.5% as a percentage of total net sales) as compared to \$29,838,000 (40.0% as a percentage of total net sales) for the 13 weeks ended November 26, 2005. Gross profit for the 39 weeks ended November 25, 2006 was \$81,111,000, a decrease of \$1,554,000 (40.2% as a percentage of total net sales) as compared to the 39 weeks ended November 26, 2005. The Company's gross profit may not be comparable to those of other entities, since other entities may include all the costs related to their distribution network in cost of goods sold and others, like the Company, exclude a portion of those costs from gross profit and, instead, include them in other line items; such as selling and administrative expenses and occupancy costs. Gross profit for the 39 weeks ended November 25, 2006 versus the comparable period last year declined because of higher markdowns.

Selling, general and administrative expense was \$17,978,000 (24.7% as a percentage of total net sales) for the 13 weeks ended November 25, 2006 as compared to \$18,323,000 (24.5% as a percentage of total net sales) for the 13 weeks ended November 26, 2005. Selling, general and administrative expense was \$55,117,000 (27.3% as a percentage of total net sales) for the 39 weeks ended November 25, 2006 as compared to \$55,058,000 (27.0% as a percentage of total net sales) for the 39 weeks ended November 26, 2005. The reduced expenses in the 13 weeks ended November 25, 2006 when compared to the comparable period a year ago resulted largely from the closing of one store located in Rochester, New York and lower insurance costs in existing stores.

Advertising expense for the 13 weeks ended November 5, 2006 were \$2,976,000 (4.1% as a percentage of total net sales) as compared to \$3,266,000 (4.4% as a percentage of total net sales) in the 13 week period ended November 26, 2005. Advertising expense for the 39 weeks ended November 25, 2006 was \$7,111,000 (3.5% as a percentage of total net sales) as compared to \$7,015,000 (3.5% as a percentage of total net sales) in the 39 week period ended November 26, 2005.

Occupancy costs were \$4,237,000 (5.8% as a percentage of total net sales) for the 13 weeks ended November 25, 2006 as compared to \$4,371,000 (5.6% as a percentage of total net sales) for the 13 week period ended November 26, 2006. Occupancy costs were \$13,346,000 (6.6% as a percentage of total net sales) for the 39 week period ended November 25, 2006 as compared to \$12,979,000 (6.4% as a percentage of total net sales) for the 39 week period ended November 26, 2005. This increased expense in the 39 week period in 2006 is largely the result of higher fuel costs due to higher fuel prices.

Depreciation and amortization expense was \$1,983,000 (2.7% as a percentage of total net sales) for the 13 week period ended November 25, 2006 as compared to \$2,179,000 (2.9% as a percentage of total net sales) for the 13 week period ended November 26, 2005. Depreciation and amortization expense for the 39 week period ended November 25, 2006 was \$6,221,000 (3.1% as a percentage of total net sales) as compared to \$6,596,000 (3.2% as a percentage of total net sales) for the 39 week period ended November 26, 2005.

The results for the 39 weeks ended November 25, 2006 reflects a gain of \$10,424,000 resulting from the sale of the Company's two stores located in Rochester, New York and Dallas, Texas, respectively. These two stores, which closed in May 2006, included the land and building occupied by these two stores. The Dallas store was replaced by a store located in Plano, Texas which opened in May 2006 and is a leased property.

The net income before income taxes for the 13 weeks ended November 25, 2006 was \$3,609,000 as compared to \$1,934,000 for the 13 weeks ended November 26, 2005. The net income before taxes for the 39 weeks ended November 25, 2006 was \$11,466,000 as compared to \$1,691,000 for the 39 weeks ended November 26, 2005. The improvement in net income before taxes for the 39 weeks ended November 25, 2006 resulted largely from the gain on the sale of real estate of \$10,424,000 as noted above.

For the 39 week period ended November 25, 2006 the effective income tax rate was 44.5% as compared to 39% for the comparable period a year ago.



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**Liquidity and Capital Resources (in thousands)**

Working capital as of November 25, 2006 was \$79,326,000, a decrease of \$601,000 as compared to \$79,927,000 as of November 26, 2005. The ratio of current assets to current liabilities was 2.43 to 1 as of November 25, 2006 as compared to 2.5 to 1 as of November 26, 2005.

Net cash provided by operating activities totaled \$4,038,000 for the 39 weeks ended November 25, 2006, as compared to \$11,937,000 for the 39 weeks ended November 26, 2005. This decline is largely the result of lower store operating profit and higher inventory levels when compared to fiscal year end.

Net cash provided by investment activities was \$12,501,000 for the 39 weeks ended November 25, 2006 as compared to net cash used in investing activities of \$2,028,000 for the 39 weeks ended November 26, 2005. Expenditures for property and equipment were \$3,795,000 and \$2,035,000 for the 39 weeks ended November 25, 2006 and November 26, 2005, respectively.

Net cash used in financing activities was \$9,817,000 for the 39 weeks ended November 25, 2006, as compared to net cash used in financing activities of \$17,854,000 for the 39 weeks ended November 26, 2005. On May 12, 2005, the Company paid a one-time cash dividend to its shareholders of record amounting to \$15,028.

The Company has a revolving credit agreement with a bank for a line of credit not to exceed \$30,000,000 through May 1, 2008. The agreement contains financial covenants, with respect to consolidated tangible net worth, as defined as working capital and maximum capital requirements, including dividends (defined to include cash repurchases of capital stock), as well as other financial ratios. The Company is in compliance with all covenants as of November 25, 2006. Except for funds provided from this revolving credit agreement, the Company has satisfied its operating and capital expenditure requirements, including those for the operations and expansion of stores, from internally generated funds. As of November 25, 2006, February 25, 2006 and November 26, 2005, there were no outstanding borrowings under this agreement. At November 25, 2006, February 25, 2006 and November 26, 2005, the Company had \$829,794, \$1,189,234 and \$682,957 respectively, in outstanding letters of credit under this agreement.

The Company has planned capital expenditures of approximately \$5,000,000 for the fiscal year ended March 3, 2007. This does not include the purchase of Westchester property which was approved by the Board of Directors in September 2006. Through the 39 week period ended November 25, 2006, the Company has incurred \$3,795,000 of capital expenditures exclusive of the Westchester purchase which amounted to approximately \$17,782,000 and closed on December 21, 2006 subsequent to the 39 week period ended November 25, 2006.

On June 5, 2006, the Company's Board of Directors approved the repurchase by the Company through June 1, 2008 of up to 2,900,000 shares of common stock at prevailing market prices. All shares repurchased will be held as treasury stock. No purchase of the Company's stock was made in the 13 week period ended November 25, 2006.

Management believes that existing cash, internally generated funds, trade credit and funds available from the revolving credit agreement will be sufficient for working capital and capital expenditure requirements for the fiscal year ending March 3, 2007.

**Impact of Inflation and Changing Prices**

Although the Company cannot accurately determine the precise effect of inflation on its operations, it does not believe inflation has had a material effect on sales or results of operations.

**Recent Accounting Pronouncements**

See Note 7 of the Consolidated Financial Statements for a full description of the Recent Accounting Pronouncements including the respective dates of adoption and the effects on Results of Operation and Financial Condition.

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**SYMS CORP AND ITS SUBSIDIARY**

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's operations are not currently subject to material market risks for interest rates, foreign currency rates or other market price risks.

**Item 4. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures

Based on the evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report, each of Marcy Syms, the Chief Executive Officer of the Company, and Antone F. Moreira, the Chief Financial Officer of the Company, has concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported, within the time period specified by the Securities and Exchange Commission's rules and forms. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

(b) Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

**Part II. Other Information**

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Item 1. LEGAL PROCEEDINGS - None

Item 1a. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended February 25, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition and/or operating results.

Item 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS None

Item 3. DEFAULTS UPON SENIOR SECURITIES - None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS None

Item 5. OTHER INFORMATION - None

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**SYMS CORP AND ITS SUBSIDIARY**

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Item 6.

**EXHIBITS**

Exhibits filed with this Form 10-Q

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SYMS CORP AND ITS SUBSIDIARY**

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**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.

**SYMS CORP**

**Date:** January 4, 2007

**By:** /s/ Marcy Syms

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MARCY SYMS  
CHIEF EXECUTIVE OFFICER

**Date:** January 4, 2007

**By:** /s/ Antone F. Moreira

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ANTONE F. MOREIRA  
VICE PRESIDENT, CHIEF FINANCIAL OFFICER  
(Principal Financial and Accounting Officer)

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