BED BATH & BEYOND INC
Form 10-Q
January 06, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the quarterly period ended November 28, 2009

Commission File Number 0-20214

BED BATH & BEYOND INC.

(Exact name of registrant as specified in its charter)

New York	**11-2250488**
(State of incorporation)	(IRS Employer Identification No.)

650 Liberty Avenue, Union, New Jersey 07083

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **908/688-0888**

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 x 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 such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Number of shares outstanding of the issuer s Common Stock:

Class	**Outstanding at November 28, 2009**
Common Stock - $0.01 par value	262,004,495

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BED BATH & BEYOND INC. AND SUBSIDIARIES

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share data)

(unaudited)

	November 28, 2009	February 28, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 854,641	$ 668,209
Short term investment securities	162,934	2,000
Merchandise inventories	1,954,995	1,642,339
Other current assets	353,419	250,251
Total current assets	3,325,989	2,562,799
Long term investment securities	152,248	221,134
Property and equipment, net	1,118,272	1,148,435
Other assets	331,257	336,475
Total assets	$ 4,927,766	$ 4,268,843
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 718,921	$ 514,734
Accrued expenses and other current liabilities	281,494	247,508
Merchandise credit and gift card liabilities	162,882	165,621
Current income taxes payable	24,216	25,105
Total current liabilities	1,187,513	952,968
Deferred rent and other liabilities	238,660	227,209
Income taxes payable	103,160	88,212
Total liabilities	1,529,333	1,268,389
Shareholders equity:		
Preferred stock - $0.01 par value; authorized - 1,000 shares; no shares issued or outstanding		
Common stock - $0.01 par value; authorized - 900,000 shares; issued 318,953 and 314,678 shares, respectively; outstanding 262,004 and 259,701 shares, respectively	3,190	3,147
Additional paid-in capital	963,180	878,568
Retained earnings	4,528,912	4,154,921
Treasury stock, at cost; 56,949 and 54,977 shares, respectively	(2,098,275)	(2,031,642)
Accumulated other comprehensive income (loss)	1,426	(4,540)
Total shareholders equity	3,398,433	3,000,454
Total liabilities and shareholders equity	$ 4,927,766	$ 4,268,843

See accompanying Notes to Consolidated Financial Statements.

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	November 28, 2009	**November 29, 2008**	**November 28, 2009**	**November 29, 2008**
Net sales	$ 1,975,465	$ 1,782,683	$ 5,584,714	$ 5,285,066
Cost of sales	1,163,053	1,089,826	3,332,091	3,196,888
Gross profit	812,412	692,857	2,252,623	2,088,178
Selling, general and administrative expenses	566,801	556,483	1,642,677	1,645,564
Operating profit	245,611	136,374	609,946	442,614
Interest income	737	1,396	3,980	8,872
Earnings before provision for income taxes	246,348	137,770	613,926	451,486
Provision for income taxes	95,060	50,070	239,935	167,741
Net earnings	$ 151,288	$ 87,700	$ 373,991	$ 283,745
Net earnings per share - Basic	$ 0.59	$ 0.34	$ 1.45	$ 1.11
Net earnings per share - Diluted	$ 0.58	$ 0.34	$ 1.44	$ 1.10
Weighted average shares outstanding - Basic	258,074	256,150	257,610	256,503
Weighted average shares outstanding - Diluted	260,913	258,174	259,872	258,805

See accompanying Notes to Consolidated Financial Statements.

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands, unaudited)

	Nine Months Ended			
		November 28, 2009		November 29, 2008
Cash Flows from Operating Activities:				
Net earnings	$	373,991	$	283,745
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation		137,034		130,744
Stock-based compensation		32,809		32,352
Tax benefit from stock-based compensation		(1,805)		(890)
Deferred income taxes		(16,206)		(23,709)
Other		(147)		311
(Increase) decrease in assets:				
Merchandise inventories		(312,656)		(303,500)
Trading investment securities		(4,998)		(62)
Other current assets		(83,633)		(69,322)
Other assets		377		(869)
Increase (decrease) in liabilities:				
Accounts payable		206,883		62,914
Accrued expenses and other current liabilities		37,363		7,462
Merchandise credit and gift card liabilities		(2,739)		(5,415)
Income taxes payable		10,607		(20,208)
Deferred rent and other liabilities		15,216		13,476
Net cash provided by operating activities		392,096		107,029
Cash Flows from Investing Activities:				
Redemption of available-for-sale investment securities		33,320		95,250
Purchase of held-to-maturity investment securities		(119,950)		
Capital expenditures		(108,619)		(162,986)
Investment in unconsolidated joint venture, including fees				(4,782)
Net cash used in investing activities		(195,249)		(72,518)
Cash Flows from Financing Activities:				
Proceeds from exercise of stock options		53,190		16,172
Excess tax benefit from stock-based compensation		3,028		3,622
Repurchase of common stock, including fees		(66,633)		(45,033)
Net cash used in financing activities		(10,415)		(25,239)
Net increase in cash and cash equivalents		186,432		9,272
Cash and cash equivalents:				
Beginning of period		668,209		224,084
End of period	$	854,641	$	233,356

See accompanying Notes to Consolidated Financial Statements.

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(unaudited)

1) Basis of Presentation

The accompanying consolidated financial statements have been prepared without audit. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals and elimination of intercompany balances and transactions) necessary to present fairly the financial position of Bed Bath & Beyond Inc. and subsidiaries (the Company) as of November 28, 2009 and February 28, 2009 and the results of its operations for the three and nine months ended November 28, 2009 and November 29, 2008, respectively, and its cash flows for the nine months ended November 28, 2009 and November 29, 2008, respectively.

The accompanying unaudited consolidated financial statements are presented in accordance with the requirements for Form 10-Q and consequently do not include all the disclosures normally required by U.S. generally accepted accounting principles (GAAP). Reference should be made to Bed Bath & Beyond Inc. s Annual Report on Form 10-K for the fiscal year ended February 28, 2009 for additional disclosures, including a summary of the Company s significant accounting policies, and to subsequently filed Forms 8-K.

The Company exhibits less seasonality than many other retail businesses, although sales levels are generally higher in August, November and December, and generally lower in February and October.

The Company has evaluated subsequent events through January 6, 2010, the filing date of this Form 10-Q with the Securities and Exchange Commission (SEC).

2) Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued accounting guidance which established the FASB Accounting Standards Codification (ASC or Codification) as the exclusive source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC are also considered sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards, however it does not change current GAAP. The Codification is effective for all financial statements issued for interim and annual periods ending after September 15, 2009. Accordingly, the Company has reflected all necessary changes in this filing.

In December 2008, the FASB issued updated accounting guidance related to retirement benefits which requires more detailed disclosures about the assets of a defined benefit pension or other postretirement plan. This guidance is effective for fiscal years ending after December 15, 2009. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

3) Fair Value Measurements

The Company adopted the accounting guidance related to fair value measurements and disclosures for financial assets and liabilities on March 2, 2008 and for non-financial assets and liabilities on March 1, 2009. This guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The adoption of this guidance for financial and non-financial assets and liabilities did not have a material impact on the Company s consolidated financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including quoted market prices and discounted cash flows. The guidance also established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect a company s judgment concerning the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

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• Level 1 Valuations based on quoted prices in active markets for identical instruments that the Company is able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

• Level 2 Valuations based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

• Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

As of November 28, 2009, the Company s financial assets utilizing Level 1 inputs include long term investment securities traded on active securities exchanges. The Company did not have any financial assets utilizing Level 2 inputs. Financial assets utilizing Level 3 inputs included short term and long term investments in auction rate securities consisting of preferred shares of closed end municipal bond funds and securities collateralized by student loans, and a related put option (See Investment Securities, Note 5).

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the Company s degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability must be classified in its entirety based on the lowest level of input that is significant to the measurement of fair value.

Valuation techniques used by the Company must be consistent with at least one of the three possible approaches: the market approach, income approach and/or cost approach. The Company s Level 1 valuations are based on the market approach and consist primarily of quoted prices for identical items on active securities exchanges. The Company s Level 3 valuations of auction rate securities are based on the income approach, specifically, discounted cash flow analyses which utilize significant inputs based on the Company s estimates and assumptions. Inputs include current coupon rates and expected maturity dates.

The following table presents the valuation of the Company s financial assets as of November 28, 2009 measured at fair value on a recurring basis by input level:

(in millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Short term - trading securities:			
Auction rate securities	$	$ 40.7	$ 40.7
Short term - put option		2.3	2.3
Long term - available-for-sale securities:			
Auction rate securities		140.7	140.7

Long term - trading securities:						
Nonqualified deferred compensation plan assets		11.5				11.5
Total	$	11.5	$	183.7	$	195.2

The following table presents the changes in the Company s financial assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

(in millions)		**Auction Rate Securities**		**Put Option**		**Total Significant Unobservable Inputs (Level 3)**
Balance on February 28, 2009, net of temporary valuation adjustment	$	212.8	$	1.8	$	214.6
Change in temporary valuation adjustment included in accumulated other comprehensive income (loss)		0.4				0.4
Unrealized loss included in earnings (1)		(0.5)				(0.5)
Change in valuation of Put Option				0.5		0.5
Redemptions at par		(31.3)				(31.3)
Balance on November 28, 2009, net of temporary valuation adjustment	$	181.4	$	2.3	$	183.7

(1) Represents the amount of total losses for the period included in earnings relating to assets still held on November 28, 2009.

Fair Value of Financial Instruments

The Company s financial instruments include cash and cash equivalents, investment securities, accounts payable and certain other liabilities. The Company s investment securities consist primarily of auction rate securities, which are stated at their approximate fair value, and U.S. Treasury securities, which are stated at amortized cost. The book value of all financial instruments is representative of their fair values.

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4) Cash and Cash Equivalents

Included in cash and cash equivalents are credit and debit card receivables from banks, which typically settle within five business days, of $144.8 million and $51.8 million as of November 28, 2009 and February 28, 2009, respectively.

5) Investment Securities

The Company s investment securities as of November 28, 2009 and February 28, 2009 are as follows:

(in millions)	November 28, 2009	February 28, 2009
Available-for-sale securities:		
Short term	$	$ 2.0
Long term	140.7	171.4
Trading securities:		
Short term	40.7	
Long term	11.5	47.8
Held-to-maturity securities:		
Short term	119.9	
Long term	0.1	0.1
Put option:		
Short term	2.3	
Long term		1.8
Total investment securities	$ 315.2	$ 223.1

Auction Rate Securities

As of November 28, 2009 and February 28, 2009, the Company s available-for-sale investment securities represented approximately $142.9 million and approximately $176.0 million par value of auction rate securities, respectively, less temporary valuation adjustments of approximately $2.2 million and $2.6 million, respectively. Since these valuation adjustments are deemed to be temporary, they are recorded in accumulated other comprehensive income (loss), net of a related tax benefit, and did not affect the Company s earnings. These securities at par are invested in preferred shares of closed end municipal bond funds, which are required, pursuant to the Investment Company Act of 1940, to maintain minimum asset coverage ratios of 200%. All of these available-for-sale investments carried triple-A credit ratings from one or more of the major credit rating agencies as of November 28, 2009 and February 28, 2009, and none of them are mortgage-backed debt obligations. The Company believes that the unrealized losses are temporary and reflect the investments current lack of liquidity. As of November 28, 2009 and February 28, 2009, the Company s available-for-sale investments have been in a continuous unrealized loss position for 12 months or more. Due to their lack of liquidity, the Company classified $140.7 million and $171.4 million of these investments as long term investment securities at November 28, 2009 and February 28, 2009, respectively.

As of November 28, 2009 and February 28, 2009, the Company s trading investment securities included approximately $40.7 million at fair value ($43.0 million at par) and $41.4 million at fair value ($43.2 million at par), respectively, of auction rate securities which are invested in securities collateralized by student loans. As of November 28, 2009 and February 28, 2009, these securities were more than 100% collateralized with approximately 90% of such collateral in the aggregate being guaranteed by the United States government. All of these trading investment securities also carried triple-A ratings from one or more of the major credit rating agencies as of November 28, 2009 and February 28, 2009. During the first nine months of fiscal 2009, the Company recognized a pre-tax unrealized loss of approximately $0.5 million in the consolidated statement of earnings to reflect the decrease in the fair value of these securities. In the third quarter of fiscal 2008, the Company entered into an agreement (the Agreement) with the investment firm that sold the Company these securities. By entering into the Agreement, the Company (1) received the right (Put Option) to sell these auction rate securities back to the investment firm at par, at its sole discretion, anytime during the period from June 30, 2010 through July 2, 2012, and (2) gave the investment firm the right to purchase these auction rate securities or sell them on the Company s behalf at par anytime after the execution of the Agreement through July 2, 2012. The Company elected to measure the Put Option at fair value and recorded it as a long term investment. As of November 28, 2009, the fair value of the Put Option was approximately $2.3 million and during the first nine months of fiscal 2009, the Company recorded pre-tax income of approximately $0.5 million to reflect the increase in its fair value. The recording of the change in fair value of the Put Option and these securities resulted in no net impact to the consolidated statement of earnings for the first nine months of fiscal 2009. The Company anticipates that any future changes in the fair value of the Put Option will be offset by the changes in the fair value of the related auction rate securities with no material impact to the consolidated statement of earnings.

Because the Company intends to exercise its Put Option right as soon as practicably possible within one year, these securities of $40.7 million and the related Put Option of $2.3 million were classified as short term investment securities as of November 28, 2009.

During the nine months ended November 28, 2009, approximately $33.3 million of auction rate securities were redeemed at par.

U.S. Treasury Securities

As of November 28, 2009, the Company s short term held-to-maturity securities included $119.9 million of U.S. Treasury Bills with remaining maturities of less than one year. These securities are stated at their amortized cost which approximates fair value.

Other trading investment securities

The Company s other trading investment securities, which are provided as investment options to the participants of the nonqualified deferred compensation plan, are stated at fair market value. The values of these trading investment securities included in the table above are approximately $11.5 million and $6.4 million as of November 28, 2009 and February 28, 2009, respectively.

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6) Property and Equipment

As of November 28, 2009 and February 28, 2009, included in property and equipment, net is accumulated depreciation and amortization of $1.2 billion and $1.1 billion, respectively.

7) Stock-Based Compensation

The Company measures all employee stock-based compensation awards using a fair value method and records such expense in its consolidated financial statements. Currently, the Company s stock-based compensation relates to restricted stock awards and stock options. The Company s restricted stock awards are considered nonvested share awards.

Stock-based compensation expense for the three and nine months ended November 28, 2009 was approximately $10.7 million ($6.6 million after tax or $0.03 per diluted share) and approximately $32.8 million ($20.0 million after tax or $0.08 per diluted share), respectively. Stock-based compensation expense for the three and nine months ended November 29, 2008 was approximately $10.7 million ($6.8 million after tax or $0.03 per diluted share) and approximately $32.4 million ($20.3 million after tax or $0.08 per diluted share), respectively. In addition, the amount of stock-based compensation cost capitalized for the nine months ended November 28, 2009 and November 29, 2008 was approximately $0.9 million.

Incentive Compensation Plans

The Company currently grants awards under the Bed Bath & Beyond 2004 Incentive Compensation Plan (the 2004 Plan). The 2004 Plan is a flexible compensation plan that enables the Company to offer incentive compensation through stock options, restricted stock awards, stock appreciation rights and performance awards, including cash awards. Under the 2004 Plan, grants are determined by the Compensation Committee for those awards granted to executive officers and by an appropriate committee for all other awards granted. Awards of stock options and restricted stock generally vest in five equal annual installments beginning one to three years from the date of grant. The Company generally issues new shares for stock option exercises and restricted stock awards.

As of November 28, 2009, unrecognized compensation expense related to the unvested portion of the Company s stock options and restricted stock awards was $30.2 million and $104.8 million, respectively, which is expected to be recognized over a weighted average period of 2.8 years and 4.6 years, respectively.

Stock Options

Stock option grants are issued at fair market value on the date of grant and generally become exercisable in five equal annual installments beginning one to three years from the date of grant. Option grants for stock options issued prior to May 10, 2004 expire ten years after the date of grant. Option grants for stock options issued since May 10, 2004 expire eight years after the date of grant. All option grants are nonqualified.

The fair value of the stock options granted was estimated on the date of the grant using a Black-Scholes option-pricing model that uses the assumptions noted in the following table. During the first quarter of fiscal 2009, the Company granted approximately 0.7 million stock options. No stock options were granted during the second or third quarters of fiscal 2009.

Black-Scholes Valuation Assumptions (1)	**Nine Months Ended November 28, 2009**	**Nine Months Ended November 29, 2008**
Weighted Average Expected Life (in years) (2)	6.3	6.1
Weighted Average Expected Volatility (3)	40.39%	34.13%
Weighted Average Risk Free Interest Rates (4)	2.45%	3.17%
Expected Dividend Yield		

(1) Forfeitures are estimated based on historical experience.

(2) The expected life of stock options is estimated based on historical experience.

(3) Expected volatility is based on the average of historical and implied volatility. The historical volatility is determined by observing actual prices of the Company s stock over a period commensurate with the expected life of the awards. The implied volatility represents the implied volatility of the Company s call options, which are actively traded on multiple exchanges, had remaining maturities in excess of twelve months, had market prices close to the exercise prices of the employee stock options and were measured on the stock option grant date.

(4) Based on the U.S. Treasury constant maturity interest rate whose term is consistent with the expected life of the stock options.

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Changes in the Company s stock options for the nine months ended November 28, 2009 were as follows:

(Shares in thousands)	Number of Stock Options	Weighted Average Exercise Price
Options outstanding, beginning of period	17,482	$ 32.41
Granted	733	28.33
Exercised	(2,907)	18.30
Forfeited or expired	(241)	32.91
Options outstanding, end of period	15,067	$ 34.93
Options exercisable, end of period	11,698	$ 34.90

The weighted average fair value for the stock options granted during the first nine months of fiscal 2009 and 2008 was $12.33 and $12.95, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options outstanding as of November 28, 2009 was 3.3 years and $47.8 million, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options exercisable as of November 28, 2009 was 2.8 years and $38.0 million, respectively. The total intrinsic value for stock options exercised during the first nine months of fiscal 2009 and 2008 was $42.0 million and $19.8 million, respectively.

Net cash proceeds from the exercise of stock options for the first nine months of fiscal 2009 were $53.2 million and the associated income tax benefits were $1.2 million.

Restricted Stock

Restricted stock awards are issued and measured at fair market value on the date of grant and generally become exercisable in five equal annual installments beginning one to three years from the date of grant.

Vesting of restricted stock awarded to certain of the Company s executives is dependent on the Company s achievement of a performance-based test for the fiscal year of grant, and assuming achievement of the performance-based test, time vesting, subject, in general, to the executive remaining in the Company s employ on specified vesting dates. The Company recognizes compensation expense related to these awards based on the assumption that the performance-based test will be achieved. Vesting of restricted stock awarded to the Company s other employees is based solely on time vesting.

Changes in the Company s restricted stock for the nine months ended November 28, 2009 were as follows:

(Shares in thousands)	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Unvested restricted stock, beginning of period	3,624	$ 35.79
Granted	1,481	28.73

Vested	(520)	36.25
Forfeited		