

BED BATH & BEYOND INC
Form 10-Q
January 06, 2010
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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
(State of incorporation)

11-2250488
(IRS Employer Identification No.)

650 Liberty Avenue, Union, New Jersey 07083

(Address of principal executive offices) (Zip Code)

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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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Number of shares outstanding of the issuer's Common Stock:

Class
Common Stock - \$0.01 par value

Outstanding at November 28, 2009
262,004,495

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BED BATH & BEYOND INC. AND SUBSIDIARIES

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Table of Contents**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

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See accompanying Notes to Consolidated Financial Statements.

Table of Contents**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.

Table of Contents**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

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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.

Table of Contents**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.

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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

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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	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

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Vested	(520)	36.25
Forfeited	(114)	33.45
Unvested restricted stock, end of period	4,471 \$	33.46

8) Shareholders Equity

Between December 2004 and September 2007, the Company's Board of Directors authorized, through several share repurchase programs, the repurchase of \$2.950 billion of its shares of common stock. The Company was authorized to make repurchases from time to time in the open market or through other parameters approved by the Board of Directors pursuant to existing rules and regulations. The Company also purchases shares of its common stock to cover employee related taxes withheld on vested restricted stock awards. In the first nine months of fiscal 2009, the Company repurchased approximately 2.0 million shares of its common stock for a total cost of approximately \$66.6 million, bringing the aggregate total of common stock repurchased to approximately 56.9 million shares for a total cost of approximately \$2.1 billion since the initial authorization in December 2004.

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9) Earnings Per Share

The Company presents earnings per share on a basic and diluted basis. Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding including the dilutive effect of stock-based awards as calculated under the treasury stock method.

Stock-based awards for the three and nine months ended November 28, 2009 of approximately 8.4 million and 12.1 million shares, respectively, and for the three and nine months ended November 29, 2008 of approximately 15.5 million and 15.2 million shares, respectively, were excluded from the computation of diluted earnings per share as the effect would be anti-dilutive.

10) Lines of Credit

At November 28, 2009, the Company maintained two uncommitted lines of credit of \$100 million each, with expiration dates of February 26, 2010 and September 3, 2010, respectively. These uncommitted lines of credit are currently and are expected to be used for letters of credit in the ordinary course of business. As of November 28, 2009, the Company did not have any direct borrowings under the uncommitted lines of credit. Although no assurances can be provided, the Company intends to renew both uncommitted lines of credit before the respective expiration dates.

11) Supplemental Cash Flow Information

The Company paid income taxes of \$246.1 million and \$214.4 million in the first nine months of fiscal 2009 and 2008, respectively.

The Company recorded an accrual for capital expenditures of \$18.9 million and \$16.3 million as of November 28, 2009 and November 29, 2008, respectively.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Bed Bath & Beyond Inc. and subsidiaries (the Company) is a chain of retail stores, operating under the names Bed Bath & Beyond (BBB), Christmas Tree Shops (CTS), Harmon and Harmon Face Values (Harmon) and buybuy BABY. Through a joint venture, the Company also operates two stores in Mexico under the name Home & More. The Company sells a wide assortment of domestic merchandise and home furnishings, which include food, giftware, health and beauty care items and infant and toddler merchandise. The Company's objective is to be a customer's first choice for products and services in the categories offered, in the markets in which the Company operates.

The Company's strategy is to achieve this objective through excellent customer service, an extensive breadth and depth of assortment, everyday low prices, introduction of new merchandising offerings and development of its infrastructure.

Operating in the highly competitive retail industry, the Company, along with other retail companies, is influenced by a number of factors including, but not limited to, general economic conditions including the housing market, the overall macroeconomic environment and related changes in the retailing environment, consumer preferences and spending habits, unusual weather patterns, competition from existing and potential competitors, and the ability to find suitable locations at acceptable occupancy costs to support the Company's expansion program.

The difficult conditions affecting the overall macroeconomic environment continued to impact the retail sector in general. The Company believes that the uncertainty in the macroeconomic environment and factors such as the increase in the unemployment rate and issues specific to the housing industry, including a decline in home values, have negatively impacted consumer confidence and the level of discretionary spending by consumers. The Company cannot predict whether, when or the manner in which these economic conditions will change.

In light of the risks posed by the current macroeconomic environment, the Company continues to systematically review all expenditures with the goal of prudently managing its business. At the same time, the Company remains committed to making the required investments in its infrastructure to help position the Company for continued success. The Company continues to review and prioritize its capital needs while continuing to make investments, principally for new stores, existing store improvements, information technology enhancements, and other projects whose impact is considered as important to its future.

For the three months ended November 28, 2009, the Company experienced an approximate 7.3% increase in comparable store sales. This compares with an approximate 5.6% decrease in comparable store sales for the three months ended November 29, 2008, which was negatively impacted by challenging economic conditions as well as the liquidation sales of a number of businesses in the retail industry, including a then major competitor. The Company continues to believe that this industry consolidation provides an opportunity to gain market share and to improve its competitive position over the long term; however, the Company cannot, with any level of certainty, estimate the impact these liquidations have had or will have on its results of operations.

The following represents an overview of the Company's financial performance for the periods indicated:

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- For the three and nine months ended November 28, 2009, the Company's net sales were \$1.975 billion and \$5.585 billion, respectively, an increase of approximately 10.8% and 5.7%, respectively, as compared to the three and nine months ended November 29, 2008.
- Comparable store sales for the fiscal third quarter of 2009 increased by approximately 7.3% as compared with a decrease of approximately 5.6% for the corresponding period last year. For the nine months ended November 28, 2009, comparable store sales increased by approximately 1.7% as compared with a decrease of approximately 1.7% for the nine months ended November 29, 2008.

A store is considered a comparable store when it has been open for twelve full months following its grand opening period (typically four to six weeks). Stores relocated or expanded are excluded from comparable store sales if the change in square footage would cause meaningful disparity in sales over the prior period. In the case of a store to be closed, such store's sales are not considered comparable once the store closing process has commenced.

- Gross profit for the three months ended November 28, 2009 was \$812.4 million, or 41.1% of net sales, compared with \$692.9 million, or 38.9% of net sales, for the three months ended November 29, 2008. Gross profit for the nine months ended November 28, 2009 was \$2.253 billion, or 40.3% of net sales, compared with \$2.088 billion, or 39.5% of net sales, for the nine months ended November 29, 2008.

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- Selling, general and administrative expenses (SG&A) for the three months ended November 28, 2009 were \$566.8 million, or 28.7% of net sales, compared with \$556.5 million, or 31.2% of net sales, for the three months ended November 29, 2008. SG&A for the nine months ended November 28, 2009 were \$1.643 billion, or 29.4% of net sales, compared with \$1.646 billion, or 31.1% of net sales, for the nine months ended November 29, 2008.
- The effective tax rate was 38.6% and 39.1% for the three and nine months ended November 28, 2009, and 36.3% and 37.2% for the three and nine months ended November 29, 2008, respectively.
- For the three and nine months ended November 28, 2009, the Company's net earnings per diluted share were \$0.58 (\$151.3 million) and \$1.44 (\$374.0 million), respectively, compared to net earnings per diluted share of \$0.34 (\$87.7 million) and \$1.10 (\$283.7 million) for the three and nine months ended November 29, 2008, respectively.

Capital expenditures for the nine months ended November 28, 2009 and November 29, 2008 were \$108.6 million and \$163.0 million, respectively.

Results of Operations

Net Sales

Net sales for the three months ended November 28, 2009 were \$1.975 billion, an increase of \$192.8 million or approximately 10.8% over net sales of \$1.783 billion for the corresponding quarter last year. For the three months ended November 28, 2009, approximately 66.3% of the increase in net sales was attributable to the increase in comparable store sales and the balance of the increase was primarily attributable to an increase in the Company's new store sales.

For the three months ended November 28, 2009, comparable store sales for 977 stores represented \$1.877 billion of net sales and for the three months ended November 29, 2008, comparable store sales for 905 stores represented \$1.661 billion of net sales. The number of stores includes only those which constituted a comparable store for the entire respective fiscal period. The increase in comparable store sales for the three months ended November 28, 2009 was approximately 7.3%, as compared with a decrease of approximately 5.6% for the comparable period last year. Net sales and comparable store sales for the three months ended November 29, 2008 were negatively impacted by challenging economic conditions as well as the liquidation sales of a number of retailers, including a then major competitor.

Sales of domestic merchandise and home furnishings for the Company accounted for approximately 42% and 58% of net sales, respectively, for the three months ended November 28, 2009 and approximately 43% and 57% of net sales, respectively, for the three months ended November 29, 2008.

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For the nine months ended November 28, 2009, net sales were \$5.585 billion, an increase of \$299.6 million or approximately 5.7% over net sales of \$5.285 billion for the corresponding nine months last year. For the nine months ended November 28, 2009, approximately 69.7% of the increase in net sales was primarily attributable to an increase in the Company's new store sales and the balance of the increase was attributable to the increase in comparable store sales.

For the nine months ended November 28, 2009, comparable store sales for 942 stores represented \$5.294 billion of net sales and for the nine months ended November 29, 2008, comparable store sales for 875 stores represented \$4.929 billion of net sales. The number of stores includes only those which constituted a comparable store for the entire respective fiscal period. The increase in comparable store sales for the nine months ended November 28, 2009 was 1.7%, as compared with a decrease of approximately 1.7% for the comparable period last year. Net sales and comparable store sales for the nine months ended November 29, 2008 were negatively impacted by challenging economic conditions as well as the liquidation sales of a number of retailers, including a then major competitor.

Sales of domestics merchandise and home furnishings for the Company accounted for approximately 43% and 57% of net sales, respectively, for the nine months ended November 28, 2009 and approximately 44% and 56% of net sales, respectively, for the nine months ended November 29, 2008.

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Gross Profit

Gross profit for the three months ended November 28, 2009 was \$812.4 million, or 41.1% of net sales, compared with \$692.9 million, or 38.9% of net sales, for the three months ended November 29, 2008. The increase in gross profit as a percentage of net sales for the three months ended November 28, 2009 was primarily due to relative decreases in inventory acquisition costs and coupon redemptions as a percentage of sales, partially offset by a shift in the mix of merchandise sold to lower margin categories.

Gross profit for the nine months ended November 28, 2009 was \$2.253 billion, or 40.3% of net sales, compared with \$2.088 billion, or 39.5% of net sales, for the nine months ended November 29, 2008. The increase in gross profit as a percentage of net sales was primarily due to a relative decrease in inventory acquisition costs partially offset by a shift in the mix of merchandise sold to lower margin categories.

Selling, General and Administrative Expenses

SG&A for the three months ended November 28, 2009 was \$566.8 million, or 28.7% of net sales, compared with \$556.5 million, or 31.2% of net sales, for the three months ended November 29, 2008. The decrease in SG&A as a percentage of net sales for the three months ended November 28, 2009 was primarily due to relative decreases in advertising expenses resulting from a decrease in the distribution of advertising pieces, as well as relative decreases in payroll expenses. Also contributing to the decrease was the 7.3% increase in comparable store sales, resulting in relative decreases in fixed costs such as occupancy (including rent and utilities).

SG&A for the nine months ended November 28, 2009 was \$1.643 billion, or 29.4% of net sales, compared with \$1.646 billion, or 31.1% of net sales, for the nine months ended November 29, 2008. The decrease in SG&A as a percentage of net sales for the nine months ended November 28, 2009 was primarily due to a relative decrease in advertising expenses resulting from a decrease in the distribution of advertising pieces. Also contributing to the decrease were relative decreases in payroll expenses, occupancy costs (including utilities and rent) and other controllable expenses (including store supplies and travel).

Operating Profit

Operating profit for the three months ended November 28, 2009 was \$245.6 million, or 12.4% of net sales, compared to \$136.4 million, or 7.6% of net sales, during the comparable period last year. For the nine months ended November 28, 2009, operating profit was \$609.9 million, or 10.9% of net sales, compared to \$442.6 million, or 8.4% of net sales, during the first nine months of fiscal 2008. The increases in operating profit as a percentage of net sales in both comparable periods reflects the increases in the gross profit margin and relative decreases in SG&A as a percentage of net sales as a result of the factors described above.

Interest Income

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Interest income was \$0.7 million and \$1.4 million for the three months ended November 28, 2009 and November 29, 2008, respectively. Interest income was \$4.0 million and \$8.9 million for the nine months ended November 28, 2009 and November 29, 2008, respectively. The decreases in interest income in both comparable periods were primarily due to lower interest rates partially offset by an increase in the fair value of the trading investment securities related to the Company's nonqualified deferred compensation plan.

Income Taxes

The effective tax rate for the three months ended November 28, 2009 was 38.6% compared to 36.3% for the three months ended November 29, 2008. The tax rate for the three months ended November 28, 2009 and November 29, 2008 included an approximate \$0.4 million benefit and an approximate \$1.6 million benefit, respectively, due to the recognition of certain discrete tax items. The remaining increase in the 2009 effective tax rate was primarily due to slightly higher state taxes.

The effective tax rate for the nine months ended November 28, 2009 was 39.1% compared to 37.2% for the nine months ended November 29, 2008. The tax rate for the nine months ended November 28, 2009 included an approximate \$1.9 million expense as compared to an approximate \$2.6 million benefit for the nine months ended November 29, 2008 due to the recognition of certain discrete tax items. The remaining increase in the 2009 effective tax rate was primarily due to slightly higher state taxes.

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The Company expects continued volatility in the effective tax rate from quarter to quarter because the Company is required each quarter to determine whether new information changes the assessment of both the probability that a tax position will effectively be sustained and the appropriateness of the amount of recognized benefit.

Net Earnings

As a result of the factors described above, net earnings were \$151.3 million for the third quarter of fiscal 2009 and \$374.0 million for the fiscal nine months of 2009, compared with \$87.7 million and \$283.7 million for the corresponding periods in fiscal 2008.

Expansion Program

The Company is engaged in an ongoing expansion program involving the opening of new stores in both new and existing markets, the expansion or relocation of existing stores and the continuous review of strategic acquisitions.

As a result of this program, the Company operated 958 BBB stores, 57 CTS stores, 42 Harmon stores and 26 buybuy BABY stores at the end of the fiscal third quarter of 2009, compared with 921 BBB stores, 48 CTS stores, 41 Harmon stores and 11 buybuy BABY stores at the end of the corresponding quarter last year. At November 28, 2009, Company-wide total store square footage was approximately 33.4 million square feet. Since May 2008, the Company, through a joint venture, operates two stores in Mexico under the name Home & More.

The Company plans to continue to expand its operations and invest in its infrastructure to reach its long-term objectives. During the fiscal third quarter of 2009, the Company opened 16 BBB stores, including four additional stores in Canada, four CTS stores, seven buybuy BABY stores and one Harmon store and closed one BBB store. For all of fiscal 2009, the Company expects to open approximately 38 new BBB stores throughout the United States and Canada, approximately eight new CTS stores, approximately 13 new buybuy BABY stores and approximately five new Harmon stores. The continued growth of the Company is dependent, in large part, upon the Company's ability to execute its expansion program successfully.

Liquidity and Capital Resources

Fiscal 2009 compared to Fiscal 2008

The Company has been able to finance its operations, including its expansion program, through internally generated funds. Net cash provided by operating activities for the nine months ended November 28, 2009 was \$392.1 million as compared with \$107.0 million in the corresponding period of fiscal 2008. Year over year, the Company experienced a decrease in cash used for the net components of working capital, primarily accounts payable, and an increase in net earnings.

Inventory per square foot was \$58.61 as of November 28, 2009, a decrease of approximately 3.7% from \$60.85 as of November 29, 2008. The Company continues to focus on optimizing inventory productivity while maintaining appropriate in-store merchandise levels to support sales.

Net cash used in investing activities for the nine months ended November 28, 2009 was \$195.2 million as compared with \$72.5 million in the corresponding period of fiscal 2008. The \$122.7 million increase in net cash used in investing activities was primarily due to \$119.9 million of purchases of held-to-maturity investment securities in the current year.

Capital expenditures for fiscal 2009, principally for new stores, existing store improvements, information technology enhancements and other projects, are planned to be approximately \$200 million, which remains subject to the timing of projects.

Net cash used in financing activities for the nine months ended November 28, 2009 was \$10.4 million as compared with \$25.2 million in the corresponding period of fiscal 2008. The decrease in net cash used in financing activities was primarily attributable to a \$37.0 million increase in cash proceeds from the exercise of stock options, partially offset by a \$21.6 million increase in common stock repurchases.

Auction Rate Securities

As of November 28, 2009, the Company held approximately \$183.7 million of net investments in auction rate securities. Beginning in mid-February 2008, the auction process for the Company's auction rate securities failed and continues to fail. These failed auctions result in a lack of liquidity in the securities but do not affect the underlying collateral of the securities. All of these investments carry triple-A credit ratings from one or more of the major credit rating agencies and the Company believes that given their high credit quality, it will ultimately recover at par all amounts invested in these securities.

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During the third quarter of fiscal 2008, the Company entered into an agreement with the investment firm that sold the Company a portion of its auction rate securities to redeem at par approximately \$43.0 million of these securities. This agreement provides for, among other things, the option to redeem these securities at par anytime during the period from June 30, 2010 through July 2, 2012. As of November 28, 2009, the fair value of this option was \$2.3 million. Because the Company intends to exercise its right to redeem these securities as soon as practicably possible within one year, the fair value of these securities of \$40.7 million and the related 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, the Company recorded an unrealized loss of approximately \$0.5 million related to these securities and also recorded \$0.5 million of pre-tax income to reflect the increase in fair value of the option to redeem these securities at par value. This resulted in no impact on the Company's net earnings. The Company anticipates that any future changes in the fair value of the related auction rate securities will be offset by the changes in the fair value of the option with no material impact to the Company's net earnings.

The remainder of approximately \$142.9 million of these securities at par had a temporary valuation adjustment of approximately \$2.2 million to reflect their current lack of liquidity. Since this valuation adjustment is deemed to be temporary, it was recorded in accumulated other comprehensive income (loss), net of a related tax benefit, and did not affect the Company's net earnings for the nine months ended November 28, 2009.

The Company does not anticipate that any potential lack of liquidity in its auction rate securities, even for an extended period of time, will affect its ability to finance its operations, including its expansion program and planned capital expenditures. The Company continues to monitor efforts by the financial markets to find alternative means for restoring the liquidity of these investments. These investments are primarily classified as non-current assets until the Company has better visibility as to when their liquidity will be restored. The classification and valuation of these securities will continue to be reviewed quarterly.

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

Seasonality

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.

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 Securities and Exchange Commission (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

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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.

Critical Accounting Policies

See *Critical Accounting Policies* under Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2009 (2008 Form 10-K), filed with the SEC and incorporated by reference herein. There were no changes to the Company's critical accounting policies during the first nine months of fiscal 2009.

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Forward-Looking Statements

This Form 10-Q may contain forward-looking statements. Many of these forward-looking statements can be identified by use of words such as may, will, expect, anticipate, estimate, assume, continue, project, plan, and similar words and phrases. The Company's actual results and future financial condition may differ materially from those expressed in any such forward-looking statements as a result of many factors that may be outside the Company's control. Such factors include, without limitation: general economic conditions including the housing market, a challenging overall macroeconomic environment and related changes in the retailing environment, consumer preferences and spending habits; demographics and other macroeconomic factors that may impact the level of spending for the types of merchandise sold by the Company; unusual weather patterns; competition from existing and potential competitors; competition from other channels of distribution; pricing pressures; the cost of labor, merchandise and other costs and expenses; the ability to find suitable locations at acceptable occupancy costs to support the Company's expansion program; the impact of failed auctions for auction rate securities held by the Company; and matters arising out of or related to the Company's stock option grants and procedures and related matters, including any tax implications relating to the Company's stock option grants. The Company does not undertake any obligation to update its forward-looking statements.

Available Information

The Company makes available as soon as reasonably practicable after filing with the SEC, free of charge, through its website, www.bedbathandbeyond.com, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, electronically filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment securities. The Company's market risks at November 28, 2009 are similar to those disclosed in Item 7a of the Company's 2008 Form 10-K.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

The Company's Principal Executive Officer and Principal Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-15(e) and 15d-15(e)) as of November 28, 2009 (the end of the period covered by this quarterly report on Form 10-Q). Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer have concluded that the Company's current disclosure controls and procedures are effective to ensure that information required to be disclosed by our management in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

(b) *Changes in Internal Control over Financial Reporting*

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

Table of Contents**PART II - OTHER INFORMATION***Item 1. Legal Proceedings*

The Company is party to various legal proceedings arising in the ordinary course of business, which the Company does not believe to be material to the Company's business or financial condition.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, carefully consider the factors discussed under "Risk Factors" in the Company's 2008 Form 10-K as filed with the SEC. These risks could materially adversely affect the Company's business, financial condition and results of operations. These risks are not the only risks the Company faces. The Company's operations could also be affected by additional factors that are not presently known to the Company or by factors that the Company currently considers immaterial to its business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company's purchases of its common stock during the third quarter of fiscal 2009 were as follows:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) (2)
August 30, 2009 - September 26, 2009	31,500	\$ 36.93	31,500	\$ 884,925,789
September 27, 2009 - October 24, 2009	331,500	\$ 36.80	331,500	\$ 872,728,076
October 25, 2009 - November 28, 2009	549,000	\$ 36.78	549,000	\$ 852,538,259
Total	912,000	\$ 36.79	912,000	\$ 852,538,259

(1) Between December 2004 and September 2007, the Company's Board of Directors authorized, through several share repurchase programs, the repurchase of \$2.950 billion of its shares of common stock. The Company was authorized to make repurchases from time to time in the open market or through other parameters approved by the Board of Directors pursuant to existing rules and regulations. Shares purchased indicated in this table also include the withholding of a portion of restricted shares to cover taxes on vested restricted shares.

(2) Excludes brokerage commissions paid by the Company.

Item 6. Exhibits

The exhibits to this Report are listed in the Exhibit Index included elsewhere herein.

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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.

BED BATH & BEYOND INC.

(Registrant)

Date: January 6, 2010

By:

/s/ Eugene A. Castagna

Eugene A. Castagna

Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Exhibit
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

** In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.