

BED BATH & BEYOND INC
Form 10-Q
October 05, 2011
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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 August 27, 2011

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 | Outstanding at August 27, 2011 |
|---------------------------------|--------------------------------|
| Common Stock - \$0.01 par value | 244,644,349 |

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BED BATH & BEYOND INC. AND SUBSIDIARIES

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| | August 27, 2011 | February 26, 2011 |
|---|---------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,017,990 | \$ 1,183,587 |
| Short term investment securities | 724,911 | 605,608 |
| Merchandise inventories | 2,117,414 | 1,968,907 |
| Other current assets | 334,261 | 315,736 |
| Total current assets | 4,194,576 | 4,073,838 |
| Long term investment securities | 113,705 | 121,446 |
| Property and equipment, net | 1,128,998 | 1,116,297 |
| Other assets | 311,197 | 334,612 |
| Total assets | \$ 5,748,476 | \$ 5,646,193 |
| Liabilities and Shareholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 848,063 | \$ 709,550 |
| Accrued expenses and other current liabilities | 328,680 | 306,847 |
| Merchandise credit and gift card liabilities | 195,688 | 193,061 |
| Current income taxes payable | 19,265 | 112,982 |
| Total current liabilities | 1,391,696 | 1,322,440 |
| Deferred rent and other liabilities | 312,584 | 292,364 |
| Income taxes payable | 133,150 | 99,730 |
| Total liabilities | 1,837,430 | 1,714,534 |
| 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 328,199 and 325,222 shares, respectively; outstanding 244,644 and 251,666 shares, respectively | 3,282 | 3,253 |
| Additional paid-in capital | 1,291,912 | 1,191,123 |
| Retained earnings | 5,956,237 | 5,546,287 |
| Treasury stock, at cost; 83,555 and 73,556 shares, respectively | (3,345,670) | (2,814,104) |
| Accumulated other comprehensive income | 5,285 | 5,100 |
| Total shareholders equity | 3,911,046 | 3,931,659 |
| Total liabilities and shareholders equity | \$ 5,748,476 | \$ 5,646,193 |

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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 | | Six Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | August 27, 2011 | August 28, 2010 | August 27, 2011 | August 28, 2010 |
| Net sales | \$ 2,314,064 | \$ 2,136,730 | \$ 4,424,015 | \$ 4,059,781 |
| Cost of sales | 1,363,065 | 1,261,812 | 2,615,444 | 2,409,827 |
| Gross profit | 950,999 | 874,918 | 1,808,571 | 1,649,954 |
| Selling, general and administrative expenses | 579,363 | 578,016 | 1,147,987 | 1,127,658 |
| Operating profit | 371,636 | 296,902 | 660,584 | 522,296 |
| Interest (expense) income, net | (1,872) | 327 | (1,320) | 843 |
| Earnings before provision for income taxes | 369,764 | 297,229 | 659,264 | 523,139 |
| Provision for income taxes | 140,392 | 115,474 | 249,314 | 203,831 |
| Net earnings | \$ 229,372 | \$ 181,755 | \$ 409,950 | \$ 319,308 |
| Net earnings per share - Basic | \$ 0.94 | \$ 0.71 | \$ 1.68 | \$ 1.24 |
| Net earnings per share - Diluted | \$ 0.93 | \$ 0.70 | \$ 1.65 | \$ 1.22 |
| Weighted average shares outstanding - Basic | 242,751 | 257,013 | 244,148 | 258,207 |
| Weighted average shares outstanding - Diluted | 246,539 | 259,928 | 248,169 | 261,783 |

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**BED BATH & BEYOND INC. AND SUBSIDIARIES***Consolidated Statements of Cash Flows**(in thousands, unaudited)*

| | Six Months Ended | |
|---|--------------------|--------------------|
| | August 27, 2011 | August 28, 2010 |
| Cash Flows from Operating Activities: | | |
| Net earnings | \$ 409,950 | \$ 319,308 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 88,110 | 89,882 |
| Stock-based compensation | 24,268 | 22,636 |
| Tax benefit from stock-based compensation | (2,736) | (2,660) |
| Deferred income taxes | (11,946) | (11,281) |
| Other | (915) | (694) |
| (Increase) decrease in assets: | | |
| Merchandise inventories | (148,507) | (143,393) |
| Trading investment securities | (557) | (1,859) |
| Other current assets | 16,284 | (29,525) |
| Other assets | 685 | (2,562) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 141,161 | 168,903 |
| Accrued expenses and other current liabilities | 21,195 | 24,322 |
| Merchandise credit and gift card liabilities | 2,627 | 6,315 |
| Income taxes payable | (60,297) | (51,370) |
| Deferred rent and other liabilities | 6,831 | 16,080 |
| Net cash provided by operating activities | 486,153 | 404,102 |
| Cash Flows from Investing Activities: | | |
| Purchase of held-to-maturity investment securities | (856,012) | (780,750) |
| Redemption of held-to-maturity investment securities | 731,250 | 555,020 |
| Redemption of available-for-sale investment securities | 15,550 | 14,025 |
| Redemption of trading investment securities | | 42,825 |
| Capital expenditures | (89,598) | (83,574) |
| Net cash used in investing activities | (198,810) | (252,454) |
| Cash Flows from Financing Activities: | | |
| Proceeds from exercise of stock options | 77,703 | 70,054 |
| Excess tax benefit from stock-based compensation | 923 | 1,038 |
| Repurchase of common stock, including fees | (531,566) | (278,336) |
| Net cash used in financing activities | (452,940) | (207,244) |
| Net decrease in cash and cash equivalents | (165,597) | (55,596) |
| Cash and cash equivalents: | | |

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| | | | | |
|---------------------|----|-----------|----|-----------|
| Beginning of period | | 1,183,587 | | 1,096,100 |
| End of period | \$ | 1,017,990 | \$ | 1,040,504 |

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 August 27, 2011 and February 26, 2011 and the results of its operations for the three and six months ended August 27, 2011 and August 28, 2010, respectively, and its cash flows for the six months ended August 27, 2011 and August 28, 2010, 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 26, 2011 for additional disclosures, including a summary of the Company's significant accounting policies, and to subsequently filed Forms 8-K.

2) Fair Value Measurements

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 hierarchy for inputs used in measuring fair value 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:

- 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.

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

As of August 27, 2011, 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 long term investments in auction rate securities consisting of preferred shares of closed end municipal bond funds (See Investment Securities, Note 4).

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.

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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 August 27, 2011 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 |
|--|---|--|----------|
| Long term - available-for-sale securities: | | | |
| Auction rate securities | \$ | \$ 95.6 | \$ 95.6 |
| Long term - trading securities: | | | |
| Nonqualified deferred compensation plan assets | 18.1 | | 18.1 |
| Total | \$ 18.1 | \$ 95.6 | \$ 113.7 |

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 |
|---|----------------------------|
| Balance on February 26, 2011, net of temporary valuation adjustment | \$ 109.7 |
| Change in temporary valuation adjustment included in accumulated other comprehensive income | 1.5 |
| Redemptions at par | (15.6) |
| Balance on August 27, 2011, net of temporary valuation adjustment | \$ 95.6 |

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 U.S. Treasury securities, which are stated at amortized cost, and auction rate securities, which are stated at their approximate fair value. The book value of all financial instruments is representative of their fair values.

3) Cash and Cash Equivalents

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Included in cash and cash equivalents are credit and debit card receivables from banks, which typically settle within five business days, of \$76.2 million and \$61.9 million as of August 27, 2011 and February 26, 2011, respectively.

Table of Contents**4) Investment Securities**

The Company's investment securities as of August 27, 2011 and February 26, 2011 are as follows:

| (in millions) | August 27, 2011 | February 26, 2011 |
|---------------------------------------|--------------------|----------------------|
| Available-for-sale securities: | | |
| Short term | \$ | \$ 5.8 |
| Long term | 95.6 | 103.9 |
| Trading securities: | | |
| Long term | 18.1 | 17.6 |
| Held-to-maturity securities: | | |
| Short term | 724.9 | 599.8 |
| Total investment securities | \$ 838.6 | \$ 727.1 |

Auction Rate Securities

As of August 27, 2011 and February 26, 2011, the Company's available-for-sale investment securities represented approximately \$97.3 million and approximately \$112.9 million par value of auction rate securities, respectively, less temporary valuation adjustments of approximately \$1.7 million and \$3.2 million, respectively. Since these valuation adjustments are deemed to be temporary, they are recorded in accumulated other comprehensive income, net of a related tax benefit, and did not affect the Company's net 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 August 27, 2011 and February 26, 2011, and none of them are mortgage-backed debt obligations. As of August 27, 2011 and February 26, 2011, the Company's available-for-sale investments have been in a continuous unrealized loss position for 12 months or more, however, the Company believes that the unrealized losses are temporary and reflect the investments' current lack of liquidity. Due to their lack of liquidity, the Company classified approximately \$95.6 million and \$103.9 million of these investments as long term investment securities at August 27, 2011 and February 26, 2011, respectively. During the six months ended August 27, 2011, approximately \$15.6 million of these securities were redeemed at par.

U.S. Treasury Securities

As of August 27, 2011 and February 26, 2011, the Company's short term held-to-maturity securities included approximately \$724.9 million and approximately \$599.8 million, respectively, 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.

Long Term Trading Investment Securities

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The Company's long term 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 \$18.1 million and \$17.6 million as of August 27, 2011 and February 26, 2011, respectively.

5) Property and Equipment

As of August 27, 2011 and February 26, 2011, included in property and equipment, net is accumulated depreciation and amortization of approximately \$1.5 billion and \$1.4 billion, respectively.

6) 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.

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Stock-based compensation expense for the three and six months ended August 27, 2011 was approximately \$10.6 million (\$6.5 million after tax or \$0.03 per diluted share) and approximately \$24.3 million (\$15.1 million after tax or \$0.06 per diluted share), respectively. Stock-based compensation expense for the three and six months ended August 28, 2010 was approximately \$10.8 million (\$6.6 million after tax or \$0.03 per diluted share) and approximately \$22.6 million (\$13.8 million after tax or \$0.05 per diluted share), respectively. In addition, the amount of stock-based compensation cost capitalized for the six months ended August 27, 2011 and August 28, 2010 was approximately \$0.7 million and \$0.6 million, respectively.

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.

Prior to fiscal 2004, the Company had adopted various stock option plans (the Prior Plans), all of which solely provided for the granting of stock options. Upon adoption of the 2004 Plan, the common stock available under the Prior Plans became available for issuance under the 2004 Plan. No further option grants may be made under the Prior Plans, although outstanding awards under the Prior Plans will continue to be in effect.

Under the 2004 Plan and the Prior Plans, an aggregate of 83.4 million shares of common stock were authorized for issuance. The Company generally issues new shares for stock option exercises and restricted stock awards. As of August 27, 2011, unrecognized compensation expense related to the unvested portion of the Company's stock options and restricted stock awards was \$26.2 million and \$129.3 million, respectively, which is expected to be recognized over a weighted average period of 3.5 years and 4.2 years, respectively.

Stock Options

Stock option grants are issued at fair market value on the date of grant and generally become exercisable in either three or five equal annual installments beginning one year from the date of grant for options issued since May 10, 2010, and beginning one to three years from the date of grant for options issued prior to May 10, 2010. Option grants expire eight years after the date of grant for stock options issued since May 10, 2004, and expire ten years after the date of grant for stock options issued prior to May 10, 2004. 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 2011, the Company granted approximately 0.5 million stock options. No stock options were granted during the second quarter of fiscal 2011.

Black-Scholes Valuation Assumptions (1)

Six Months Ended

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| | August 27, 2011 | August 28, 2010 |
|---|--------------------|--------------------|
| Weighted Average Expected Life (in years) (2) | 6.2 | 6.1 |
| Weighted Average Expected Volatility (3) | 30.59% | 33.70% |
| Weighted Average Risk Free Interest Rates (4) | 2.34% | 2.56% |
| 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 six months ended August 27, 2011 were as follows:

| (Shares in thousands) | Number of Stock Options | | Weighted Average Exercise Price |
|--|-------------------------|----|------------------------------------|
| Options outstanding, beginning of period | 10,135 | \$ | 37.08 |
| Granted | 519 | | 56.19 |
| Exercised | (2,189) | | 35.50 |
| Forfeited or expired | (3) | | 36.74 |
| Options outstanding, end of period | 8,462 | \$ | 38.66 |
| Options exercisable, end of period | 6,460 | \$ | 37.88 |

The weighted average fair value for the stock options granted during the first six months of fiscal 2011 and 2010 was \$19.65 and \$17.05, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options outstanding as of August 27, 2011 was 3.1 years and \$138.3 million, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options exercisable as of August 27, 2011 was 2.3 years and \$110.0 million, respectively. The total intrinsic value for stock options exercised during the first six months of fiscal 2011 and 2010 was \$44.7 million and \$25.4 million, respectively.

Net cash proceeds from the exercise of stock options for the first six months of fiscal 2011 were \$77.7 million and the net associated income tax benefit was \$7.5 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 six months ended August 27, 2011 were as follows:

| (Shares in thousands) | Number of Restricted Shares | | Weighted Average Grant-Date Fair Value |
|--|--------------------------------|----|--|
| Unvested restricted stock, beginning of period | 4,575 | \$ | 35.58 |
| Granted | 843 | | 55.81 |
| Vested | (789) | | 36.02 |
| Forfeited | (54) | | 36.57 |
| Unvested restricted stock, end of period | 4,575 | \$ | 39.22 |

7) *Shareholders Equity*

Between December 2004 and December 2010, the Company's Board of Directors authorized, through several share repurchase programs, the repurchase of \$4.950 billion of its shares of common stock. The Company has authorization 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 six months of fiscal 2011, the Company repurchased approximately 10.0 million shares of its common stock for a total cost of approximately \$531.6 million, bringing the aggregate total of common stock repurchased to approximately 83.6 million shares for a total cost of approximately \$3.3 billion since the initial authorization in December 2004.

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8) 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 six months ended August 27, 2011 of approximately 1.0 million and 1.2 million, respectively, and for the three and six months ended August 28, 2010 of approximately 3.5 million and 2.4 million, respectively, were excluded from the computation of diluted earnings per share as the effect would be anti-dilutive.

9) Lines of Credit

At August 27, 2011, the Company maintained two uncommitted lines of credit of \$100 million each, with expiration dates of September 2, 2011 and February 29, 2012, respectively. Subsequent to the end of the second fiscal quarter of 2011, the expiration date on the line of credit that would have otherwise expired on September 2, 2011 was extended to September 2, 2012. These uncommitted lines of credit are currently and are expected to be used for letters of credit in the ordinary course of business. During the first six months of fiscal 2011, 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.

10) Supplemental Cash Flow Information

The Company paid income taxes of \$313.7 million and \$268.2 million in the first six months of fiscal 2011 and 2010, respectively.

The Company recorded an accrual for capital expenditures of \$15.2 million and \$13.4 million as of August 27, 2011 and August 28, 2010, 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. In addition, the Company is a partner in a joint venture which operates two stores in the Mexico City market under the name Home & More. The Company sells a wide assortment of domestics merchandise and home furnishings. Domestics merchandise includes categories such as bed linens and related items, bath items and kitchen textiles. Home furnishings include categories such as kitchen and tabletop items, fine tabletop, basic housewares, general home furnishings, consumables and certain juvenile products. 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, and introduction of new merchandising offerings, supported by the continuous development and improvement of its infrastructure.

The Company continues to face a number of economic challenges impacting consumer confidence and spending, including relatively high unemployment and commodity prices and a sluggish housing market. The Company cannot predict whether, when or the manner in which these economic conditions will change.

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

- For the three and six months ended August 27, 2011, the Company's net sales were \$2.314 billion and \$4.424 billion, respectively, an increase of approximately 8.3% and 9.0%, respectively, as compared with the three and six months ended August 28, 2010.
- Comparable store sales for the fiscal second quarter of 2011 increased by approximately 5.6% as compared with an increase of approximately 7.4% for the corresponding period last year. For the six months ended August 27, 2011, comparable store sales increased by approximately 6.3% as compared with an increase of approximately 7.9% for the six months ended August 28, 2010.

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.

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- Gross profit for the three months ended August 27, 2011 was \$951.0 million, or 41.1% of net sales, compared with \$874.9 million, or 40.9% of net sales, for the three months ended August 28, 2010. Gross profit for the six months ended August 27, 2011 was \$1.809 billion, or 40.9% of net sales, compared with \$1.650 billion, or 40.6% of net sales, for the six months ended August 28, 2010.
- Selling, general and administrative expenses (SG&A) for the three months ended August 27, 2011 were \$579.4 million, or 25.0% of net sales, compared with \$578.0 million, or 27.1% of net sales, for the three months ended August 28, 2010. SG&A for the six months ended August 27, 2011 were \$1.148 billion, or 25.9% of net sales, compared with \$1.128 billion, or 27.8% of net sales, for the six months ended August 28, 2010.
- The effective tax rate for the three months ended August 27, 2011 was 38.0% compared with 38.9% for the three months ended August 28, 2010. The effective tax rate for the six months ended August 27, 2011 was 37.8% compared with 39.0% for the six months ended August 28, 2010.
- For the three months ended August 27, 2011, the Company's net earnings per diluted share were \$0.93 (\$229.4 million), an increase of approximately 33%, as compared with net earnings per diluted share of \$0.70 (\$181.8 million) for the three months ended August 28, 2010. For the six months ended August 27, 2011, the Company's net earnings per diluted share were \$1.65 (\$410.0 million), an increase of approximately 35%, as compared with net earnings per diluted share of \$1.22 (\$319.3 million) for the six months ended August 28, 2010. The increase in net earnings per diluted share for the three and six months ended August 27, 2011 primarily reflects the favorable changes in gross profit and SG&A expenses.

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Capital expenditures for the six months ended August 27, 2011 and August 28, 2010 were \$89.6 million and \$83.6 million, respectively. 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 including increased spending on its interactive platforms, and other projects whose impact is considered important to its future.

During the three and six months ended August 27, 2011, the Company repurchased 5.2 million and 10.0 million shares, respectively, of its common stock at a total cost of approximately \$286.7 million and \$531.6 million, respectively. During the three and six months ended August 28, 2010, the Company repurchased 4.9 million and 6.8 million shares, respectively, of its common stock at a total cost of approximately \$193.1 million and \$278.3 million, respectively.

The Company plans to continue to expand its operations and invest in its infrastructure to reach its long term objectives. For all of fiscal 2011, the Company expects that the total number of new store openings will be approximately 40 stores across all of its concepts. During the fiscal second quarter of 2011, the Company opened three BBB stores, seven buybuy BABY stores and four CTS stores, and closed one BBB store.

Results of Operations

Net Sales

Net sales for the three months ended August 27, 2011 were \$2.314 billion, an increase of \$177.3 million or approximately 8.3% over net sales of \$2.137 billion for the corresponding quarter last year. For the three months ended August 27, 2011, approximately 66.5% 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 August 27, 2011, comparable store sales for 1,095 stores represented \$2.229 billion of net sales and for the three months ended August 28, 2010, comparable store sales for 1,035 stores represented \$2.035 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 August 27, 2011 was approximately 5.6%, as compared with an increase of approximately 7.4% for the comparable period last year. The increase in comparable store sales for the fiscal second quarter of 2011 was due to increases in both the average transaction amount and the number of transactions.

Sales of domestics merchandise and home furnishings for the Company accounted for approximately 42% and 58% of net sales, respectively, for the three months ended August 27, 2011 and approximately 43% and 57% of net sales, respectively, for the three months ended August 28, 2010.

For the six months ended August 27, 2011, net sales were \$4.424 billion, an increase of \$364.2 million or approximately 9.0% over net sales of \$4.060 billion for the corresponding six months last year. For the six months ended August 27, 2011, approximately 68.7% of the increase in net

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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 six months ended August 27, 2011, comparable store sales for 1,079 stores represented \$4.256 billion of net sales and for the six months ended August 28, 2010, comparable store sales for 1,015 stores represented \$3.846 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 six months ended August 27, 2011 was approximately 6.3%, as compared with an increase of approximately 7.9% for the comparable period last year. The increase in comparable store sales for the six months ended August 27, 2011 was primarily attributed to an increase in the number of transactions.

Sales of domestics merchandise and home furnishings for the Company accounted for approximately 42% and 58% of net sales, respectively, for the six months ended August 27, 2011 and August 28, 2010.

Gross Profit

Gross profit for the three months ended August 27, 2011 was \$951.0 million, or 41.1% of net sales, compared with \$874.9 million, or 40.9% of net sales, for the three months ended August 28, 2010. Gross profit for the six months ended August 27, 2011 was \$1.809 billion, or 40.9% of net sales, compared with \$1.650 billion, or 40.6% of net sales, for the six months ended August 28, 2010. The increases in gross profit as a percentage of net sales for the three and six months ended August 27, 2011 were primarily due to a reduction in markdowns and coupons as a percentage of net sales, partially offset by an increase in inventory acquisition costs and a shift in the mix of merchandise sold to lower margin categories.

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Selling, General and Administrative Expenses

SG&A for the three months ended August 27, 2011 was \$579.4 million, or 25.0% of net sales, compared with \$578.0 million, or 27.1% of net sales, for the three months ended August 28, 2010. SG&A for the six months ended August 27, 2011 was \$1.148 billion, or 25.9% of net sales, compared with \$1.128 billion, or 27.8% of net sales, for the six months ended August 28, 2010. The decreases in SG&A as a percentage of net sales for the three and six months ended August 27, 2011 was primarily attributed to relative decreases in payroll, occupancy and advertising expenses as a percentage of net sales, all of which benefited from the increases in comparable store sales for both the three and six months ended August 27, 2011. In addition, advertising expenses as a percentage of net sales for both the second quarter and fiscal first half, benefited from a reduction in the mailing of advertising pieces.

Operating Profit

Operating profit for the three months ended August 27, 2011 was \$371.6 million, or 16.1% of net sales, compared with \$296.9 million, or 13.9% of net sales, during the comparable period last year. For the six months ended August 27, 2011, operating profit was \$660.6 million, or 14.9% of net sales, compared with \$522.3 million, or 12.9% of net sales, during the first six months of fiscal 2010. The increases in operating profit as a percentage of net sales were a result of the changes in the gross profit margin and SG&A as a percentage of net sales as described above.

Income Taxes

The effective tax rate for the three months ended August 27, 2011 was 38.0% compared with 38.9% for the three months ended August 28, 2010. The tax rate for the three months ended August 27, 2011 included a decrease in the overall state effective tax rate as well as a net benefit of approximately \$1.2 million, primarily due to favorable resolutions in the quarter of certain discrete tax items from ongoing income tax examinations.

The effective tax rate for the six months ended August 27, 2011 was 37.8% compared with 39.0% for the six months ended August 28, 2010. The tax rate for the six months ended August 27, 2011 included a net benefit of approximately \$5.0 million, primarily due to favorable resolutions of certain discrete tax items from ongoing income tax examinations. The tax rate for the six months ended August 28, 2010 included an approximate \$0.7 million expense due to the recognition of certain discrete items.

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 a recognized benefit.

Net Earnings

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As a result of the factors described above, net earnings for the three and six months ended August 27, 2011 were \$229.4 million and \$410.0 million, respectively, compared with \$181.8 million and \$319.3 million for the corresponding periods in fiscal 2010.

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 986 BBB stores, 70 CTS stores, 45 Harmon stores and 54 buybuy BABY stores at the end of the fiscal second quarter of 2011, compared with 972 BBB stores, 61 CTS stores, 45 Harmon stores and 33 buybuy BABY stores at the end of the corresponding quarter last year. At August 27, 2011, Company-wide total store square footage was approximately 35.6 million square feet. In addition, the Company is a partner in a joint venture which operates two stores in the Mexico City market 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 second quarter of 2011, the Company opened three BBB stores, seven buybuy BABY stores and four CTS stores, and closed one BBB store. For all of fiscal 2011, the Company expects that the total number of new store openings will be approximately 40 stores across all of its concepts. In fiscal 2012, in order to further improve the communication, collaboration, coordination and execution across all of its concepts, activities and platforms, the Company plans to incur costs to relocate its offices from Farmingdale and Garden City, New York to its Union, New Jersey corporate headquarters buildings. The continued growth of the Company is dependent, in large part, upon the Company's ability to execute its expansion program successfully.

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Liquidity and Capital Resources

The Company has been able to finance its operations, including its expansion program, entirely through internally generated funds. For fiscal 2011, the Company believes that it will continue to finance its operations, including its expansion program, share repurchase program and planned capital expenditures, entirely through existing and internally generated funds.

Fiscal 2011 compared to Fiscal 2010

Net cash provided by operating activities for the six months ended August 27, 2011 was \$486.2 million, compared with \$404.1 million in the corresponding period in fiscal 2010. Year over year, the Company experienced an increase in net earnings partially offset by an increase in cash used by the net components of working capital (primarily accounts payable, deferred rent & other liabilities, income taxes payable and merchandise inventories, partially offset by other current assets).

Inventory per square foot was \$59.51 as of August 27, 2011 compared to \$55.78 as of August 28, 2010. Inventory per square foot was approximately 6.7% higher than the prior period primarily to support increases in comparable store sales and timing of merchandise receipts.

Net cash used in investing activities for the six months ended August 27, 2011 was \$198.8 million, compared with \$252.5 million in the corresponding period of fiscal 2010. For the six months ended August 27, 2011, net cash used in investing activities was due to \$109.2 million of purchases of investment securities, net of redemptions, and \$89.6 million of capital expenditures. For the six months ended August 28, 2010, net cash used in investing activities was due to \$168.9 million of purchases of investment securities, net of redemptions, and \$83.6 million of capital expenditures.

Capital expenditures for fiscal 2011, principally for new stores, existing store improvements, and information technology enhancements including increased spending on interactive platforms and other projects, are planned to be approximately \$250 million, but may reach as high as \$300 million, depending on the composition and timing of projects.

Net cash used in financing activities for the six months ended August 27, 2011 was \$452.9 million, compared with \$207.2 million in the corresponding period of fiscal 2010. The increase in net cash used was primarily due to an increase of \$253.2 million in common stock repurchases, partially offset by an increase of \$7.6 million in cash proceeds from the exercise of stock options.

Auction Rate Securities

As of August 27, 2011, the Company held approximately \$95.6 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

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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. As of August 27, 2011, these securities had a temporary valuation adjustment of approximately \$1.7 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, net of a related tax benefit, and did not affect the Company's net earnings for the six months ended August 27, 2011.

During the six months ended August 27, 2011, approximately \$15.6 million of auction rate securities were redeemed at par.

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, share repurchase 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 will remain 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.

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Seasonality

The Company's sales exhibit seasonality with sales levels generally higher in the calendar months of August, November and December, and generally lower in February.

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 26, 2011 (2010 Form 10-K), filed with the Securities and Exchange Commission (SEC) and incorporated by reference herein. There were no changes to the Company's critical accounting policies during the first six months of fiscal 2011.

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, approximate, estimate, assume, continue, model, 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 ability to attract and retain qualified employees in all areas of the organization; 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; disruptions to the Company's information technology systems including but not limited to security breaches of the Company's systems protecting consumer and employee information; changes to statutory, regulatory and legal requirements; changes to, or new, tax laws or interpretation of existing tax laws; and changes to, or new, accounting standards including, without limitation, changes to lease accounting standards. 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

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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 August 27, 2011 are similar to those disclosed in Item 7A of the Company's 2010 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 August 27, 2011 (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.

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(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 2010 Form 10-K as filed with the Securities and Exchange Commission. 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 second quarter of fiscal 2011 were as follows:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share (2) | 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) |
|---------------------------------|---|---|---|---|
| May 29, 2011 - June 25, 2011 | 1,446,500 | \$ 53.14 | 1,446,500 | \$ 1,815,285,622 |
| June 26, 2011 - July 23, 2011 | 1,211,100 | \$ 58.36 | 1,211,100 | \$ 1,744,605,951 |
| July 24, 2011 - August 27, 2011 | 2,572,400 | \$ 54.06 | 2,572,400 | \$ 1,605,532,176 |
| Total | 5,230,000 | \$ 54.80 | 5,230,000 | \$ 1,605,532,176 |

(1) Between December 2004 and December 2010, the Company's Board of Directors authorized, through several share repurchase programs, the repurchase of \$4.950 billion of its shares of common stock. The Company has authorization 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: October 5, 2011

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 |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |