

BED BATH & BEYOND INC
Form 10-K
April 27, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended February 27, 2010

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, \$.01 par value	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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As of August 29, 2009, the aggregate market value of the common stock held by non-affiliates (which was computed by reference to the closing price on such date of such stock on the NASDAQ National Market) was \$9,193,094,656.*

The number of shares outstanding of the issuer's common stock (par value \$0.01 per share) at March 27, 2010: 263,260,391.

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement for the 2010 Annual Meeting of Shareholders pursuant to Regulation 14A are incorporated by reference in Part III hereof.

* For purposes of this calculation, all outstanding shares of common stock have been considered held by non-affiliates other than the 15,160,275 shares beneficially owned by directors and executive officers, including in the case of the Co-Chairmen trusts and foundations affiliated with them. In making such calculation, the Registrant does not determine the affiliate or non-affiliate status of any shares for any other purpose.

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PART I

Unless otherwise indicated, the term "Company" refers collectively to Bed Bath & Beyond Inc. and subsidiaries as of February 27, 2010. The Company's fiscal year is comprised of the 52 or 53 week period ending on the Saturday nearest February 28. Accordingly, fiscal 2009, 2008, and 2007 represented 52 weeks and ended on February 27, 2010, February 28, 2009, and March 1, 2008, respectively. Unless otherwise indicated, all references herein to periods of time (e.g., quarters and years) are to fiscal periods.

ITEM 1 - BUSINESS

Introduction

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, which include food, giftware, health and beauty care items and infant and toddler merchandise. The Company believes that it is the nation's largest operator of stores selling predominantly domestics merchandise and home furnishings while offering a breadth and depth of selection in most of its product categories that exceeds what is generally available in department stores or other specialty retail stores.

History

The Company was founded in 1971 by Leonard Feinstein and Warren Eisenberg, the Co-Chairmen of the Company. Each has more than 49 years of experience in the retail industry.

The Company commenced operations in 1971 with the opening of two stores, which primarily sold bed linens and bath accessories. In 1985, the Company introduced its first store carrying a full line of domestics merchandise and home furnishings. The Company began using the name "Bed Bath & Beyond" in 1987 in order to reflect the expanded product line offered by its stores and to distinguish its stores from conventional specialty retail stores offering only domestics merchandise or home furnishings. In March 2002, the Company acquired Harmon, a health and beauty care retailer, which operated 27 stores at the time located in Connecticut, New Jersey and New York. In June 2003, the Company acquired CTS, a retailer of giftware and household items, which operated 23 stores at the time located in Connecticut, Maine, Massachusetts, New Hampshire, New York and Rhode Island. In March 2007, the Company acquired buybuy BABY, a retailer of infant and toddler merchandise, which operated 8 stores at the time located in Maryland, New Jersey, New York and Virginia. In December 2007, the Company opened its first international BBB store in Ontario, Canada. In May 2008, the Company became a partner in a joint venture which operates two stores in the Mexico City market under the name Home & More.

Operations

It is the Company's goal to offer quality merchandise at everyday low prices; to maintain a wide assortment of merchandise; to present merchandise in a distinctive manner designed to maximize customer convenience and reinforce customer perception of wide selection; and to emphasize dedication to customer service and satisfaction.

Pricing. The Company believes in maintaining everyday low prices. The Company regularly monitors price levels at its competitors in order to ensure that its prices are in accordance with its pricing philosophy. The Company believes that the application of its everyday low price philosophy is an important factor in establishing its reputation among customers.

Merchandise Assortment. The Company sells a wide assortment of domestics merchandise and home furnishings, which include food, giftware, health and beauty care items and infant and toddler merchandise. Domestics merchandise includes categories such as bed linens and related items, bath items and kitchen textiles. Home furnishings includes categories such as kitchen and tabletop items, fine tabletop, basic housewares and general home furnishings.

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The Company encourages local store personnel to tailor the merchandise mix as appropriate to respond to changing trends and conditions. The factors taken into account in selecting the merchandise mix for a particular store include store size and configuration and local market conditions such as climate and demographics. The Company, on an ongoing basis, tests new merchandise categories and adjusts the categories of merchandise carried in its stores and may add new departments or adjust the size of existing departments as required. Additionally, the Company continues to integrate the merchandise assortments within its concepts. The Company believes that the process of adding new departments, integrating the Company's merchandise within concepts, and expanding or reducing the size of various departments in response to changing conditions is an important part of its merchandising strategy.

Merchandise Presentation. BBB has developed a distinctive style of merchandise presentation. Primarily all of the BBB stores have groups of related product lines presented together in separate areas of each store, creating the appearance that the store is comprised of several individual specialty stores for different product lines. BBB believes that its format of merchandise presentation makes it easy for customers to locate products, reinforces customer perception of wide selection and communicates to customers that its stores offer a level of customer service generally associated with smaller specialty stores.

BBB believes that its extensive merchandise selection, rather than fixturing, should be the focus of customer attention and, accordingly, primarily uses simple modular fixturing throughout its stores. This fixturing is primarily designed so that it can be easily reconfigured to adapt to changes in the store's merchandise mix and presentation. BBB believes that its merchandise displays create an exciting and attractive shopping environment that encourages impulse purchases of additional items.

Advertising. In general, the Company relies on word of mouth advertising, its reputation for offering a wide assortment of quality merchandise at everyday low prices and the use of paid advertising. The Company distributes full-color circulars and other advertising pieces as its primary vehicles of paid advertising via direct mail or inserts. Also, to support the opening of new stores, the Company primarily uses grand opening direct mail and newspaper advertising.

Customer Service. The Company places a strong focus on customer service and seeks to make shopping at its stores as pleasant and convenient as possible. Most stores are open seven days and six evenings a week in order to enable customers to shop at times that are convenient for them. In addition, the Company's websites, www.bedbathandbeyond.com, www.christmastreesshops.com, www.harmondiscout.com, www.facevalues.com and www.buybuybaby.com are available for customers to access 24 hours a day, seven days a week.

Suppliers

In fiscal 2009, the Company purchased its merchandise from approximately 5,200 suppliers with the Company's largest supplier accounting for approximately 4% of the Company's merchandise purchases and the Company's 10 largest suppliers accounting for approximately 20% of such purchases. The Company purchases substantially all of its merchandise in the United States, the majority from domestic sources and the balance from importers. The Company purchases a small amount of its merchandise directly from overseas sources. The Company has no long term contracts for the purchase of merchandise. The Company believes that most merchandise, other than brand name goods, is available from a variety of sources and that most brand name goods can be replaced with comparable merchandise.

Warehousing

The Company's merchandise displays allow a substantial amount of merchandise to be displayed on the sales floor at all times. Merchandise not displayed on the sales floor is typically stored in warehouse space within the store. In addition, the Company maintains 11 supplemental storage locations as well as three central distribution centers. The majority of the Company's merchandise is directly shipped to stores from vendors through third party carriers and service providers; the remainder of the Company's merchandise is shipped to stores through its distribution centers.

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In addition, the Company maintains two E-Service fulfillment centers.

Employees

As of February 27, 2010, the Company employed approximately 41,000 persons in full-time and part-time positions. The Company believes that its relations with its employees are very good and that the labor turnover rate among its management employees is lower than that generally experienced within the industry.

Seasonality

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

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. In the 18 year period from the beginning of fiscal 1992 to the end of fiscal 2009, the Company has grown from 34 stores to 1,100 stores. The Company's 1,100 stores operate in 49 states, the District of Columbia, Puerto Rico and Canada, including: 965 BBB stores operating in 49 states, the District of Columbia, Puerto Rico and Canada; 61 CTS stores operating in 15 states; 45 Harmon stores operating in three states; and 29 buybuy BABY stores operating in 14 states. Total square footage grew from approximately 0.9 million square feet at the beginning of fiscal 1992 to approximately 33.7 million square feet at the end of fiscal 2009. During fiscal 2009, the Company opened a total of 67 new stores, including 39 BBB stores throughout the United States and Canada, nine CTS stores, five Harmon stores and 14 buybuy BABY stores, and closed four BBB stores, all of which resulted in the aggregate addition of approximately 1.7 million square feet of store space. 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 intends to continue its expansion program and believes that the continued growth of the Company is dependent, in large part, on the success of this program. As part of its expansion program, the Company expects to open new stores and expand existing stores as opportunities arise. The Company believes throughout the United States and Canada, there is an opportunity to open in excess of 1,300 BBB stores as well as grow the CTS and buybuy Baby concepts from coast to coast.

In determining where to open new stores, the Company evaluates a number of factors, including the availability of real estate, demographic information (such as data relating to income and education levels, age and occupation) and distribution. The Company has built its management structure with a view toward its expansion and believes that, as a result, it has the management depth necessary to support its anticipated expansion program.

Competition

The Company believes it is the preeminent retailer in its segment of the home goods industry, which is fragmented and highly competitive. In addition, the BBB stores compete with many different types of retail stores that sell many or most of the same products. Such competitors include: (i) department stores, which often carry many of the same product lines as the Company's stores but do not typically have the same depth or breadth of product selection, (ii) specialty stores, which often have a depth of product selection but typically carry only a limited portion of the product lines carried by the Company's stores, (iii) discount and mass merchandise stores and (iv) national chains. In addition, the Company's stores compete, to a more limited extent, with factory outlet stores that typically offer limited quantities or limited lines of quality merchandise at discount prices.

Other retail chains continue to introduce new store concepts that include many of the product lines carried by the Company's stores.

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There can be no assurance that the operation of store competitors will not have a material effect on the Company.

Tradenames and Service Marks

The Company uses the Bed Bath & Beyond name and logo and the Beyond any store of its kind tag line as service marks in connection with retail services. The Company has registered these marks and others, including names and logos of CTS, Harmon and buybuy BABY, with the United States Patent and Trademark Office. The Company also has registered or has applications pending with the trademark registries of several foreign countries, including having registered the Bed Bath & Beyond name and logo and the Beyond any store of its kind tag line in Canada. Management believes that its name recognition and service marks are important elements of the Company's merchandising strategy.

Available Information

The Company makes available as soon as reasonably practicable after filing with the Securities and Exchange Commission (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(a) or 15(d) of the Securities Exchange Act of 1934.

ITEM 1A RISK FACTORS

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. 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 the following:

General Economic Conditions

General economic factors that are beyond the Company's control impact the Company's forecasts and actual performance. These factors include housing markets, recession, inflation, deflation, consumer credit availability, consumer debt levels, fuel and energy costs, interest rates, tax rates and policy, unemployment trends, the impact of natural disasters and terrorist activities, conditions affecting the retail environment for the home and other matters that influence consumer spending. Changes in the economic climate could adversely affect the Company's performance.

Competition and Pricing Pressures

The retail business is highly competitive. The Company competes for customers, associates, locations, merchandise, services and other important aspects of the business with many other local, regional and national retailers. Those competitors range from specialty retail stores to department stores and discounters. Unanticipated changes in the pricing and other practices of those competitors, including promotional activity, may adversely affect the Company's performance.

Consumer Preferences and Demographic Factors

The Company's success depends on our ability to anticipate and respond in a timely manner to changing merchandise trends, customer demands and demographics. The Company's failure to anticipate, identify or react appropriately to changes in customer tastes, preferences, spending patterns and other lifestyle decisions could lead to, among other things, excess inventories or a shortage of products and could have a material adverse affect on the Company's financial condition and results of operations.

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Unusual Weather Patterns

The Company's operating results could be negatively impacted by unusual weather patterns. Frequent or unusually heavy snow, ice or rain storms, hurricanes, floods, tornados or extended periods of unseasonable temperatures could adversely affect the Company's performance.

Cost of Labor, Merchandise and Other Expenses

The Company's success depends, in part, on its ability to manage operating costs and to look for opportunities to reduce costs. The Company's ability to meet its labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. The Company's ability to find qualified vendors and obtain access to products in a timely and efficient manner can be adversely affected by political instability, the financial instability of suppliers, suppliers' noncompliance with applicable laws, transportation costs and other factors beyond the Company's control.

Expansion Program

The Company's growth depends, in part, on its ability to open new stores and operate profitably. The Company's ability to open additional stores successfully will depend on a number of factors, including its identification and availability of suitable store locations; its success in negotiating leases on acceptable terms; its hiring and training of skilled store operating personnel, especially management; and its timely development of new stores, including the availability of construction materials and labor and the absence of significant construction and other delays in store openings based on weather or other events. In addition, as the Company's business continues to grow, it is subject to more complex regulations and may be the target of private actions alleging violations of such regulations. This increases the cost of doing business and the risk that the Company's business practices could result in liabilities that may adversely affect its performance, despite the exercise of reasonable care.

Auction Rate Securities

As of February 27, 2010, the Company held approximately \$178.6 million of net investments in auction rate securities. These securities 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% and also are invested in securities collateralized by student loans which are currently more than 100% collateralized and with approximately 90% of such collateral in the aggregate being guaranteed by the United States government. None of the auction rate securities held by the Company are mortgage-backed debt obligations. 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.

During fiscal 2008, the Company entered into an agreement (the Agreement) with the investment firm that sold the Company a portion of its auction rate securities which have a par value of approximately \$42.8 million at February 27, 2010. By entering into the Agreement, the

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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. As of February 27, 2010, the fair value of this option was approximately \$2.3 million. 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 Put Option with no material impact to the consolidated statement of earnings. Because the Company intends to exercise its right to redeem these securities as soon as practicably possible during fiscal 2010, the fair value of these securities of approximately \$40.5 million and the related option of approximately \$2.3 million were classified as short term investment securities as of February 27, 2010.

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As of February 27, 2010, the remainder of the Company's investment in auction rate securities of approximately \$137.9 million at par had a temporary valuation adjustment of approximately \$2.1 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 fiscal 2009. The Company does not anticipate that any potential lack of liquidity in these 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. However, if the interest rate environment changes, the Company may incur further temporary impairment losses. If uncertainties in the credit and capital markets continue and these markets deteriorate further, the Company may conclude that the decline in value is other than temporary and incur realized losses, including up to the full amount of the investments in auction rate securities, which could negatively affect the Company's financial position, cash flow and results of operations. During fiscal 2009 and 2008, approximately \$38.5 million and \$107.6 million, respectively, of auction rate securities, were redeemed at par. As of February 27, 2010, the Company classified approximately \$15.0 million of these securities as short term investment securities due to expected redemptions at par during the first half of fiscal 2010. Subsequent to the end of fiscal 2009 through April 22, 2010, the Company additionally redeemed approximately \$14.1 million of these securities at par. The classification and valuation of these securities will continue to be reviewed quarterly.

Review of Equity Grants and Procedures and Related Matters

In June 2006, the Company's Board of Directors appointed a special committee of independent directors with authority, among other things, to conduct an investigation with respect to the setting of exercise prices for employee stock options and related matters. The review identified various deficiencies in the process of granting and documenting stock options and restricted shares. As a result of the deficiencies, the Company revised the measurement dates for various option grants.

The Company's past stock option granting procedures have exposed the Company to risk factors that could have an adverse affect on the Company's financial condition, including any tax implications relating to the Company's stock option grants.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

Most of the Company's stores are located in suburban areas of medium and large-sized cities. These stores are situated in strip and power strip shopping centers, as well as in major off-price and conventional malls, and in free standing buildings.

The Company's 1,100 stores are located in 49 states, the District of Columbia, Puerto Rico and Canada and range in size from approximately 5,000 to 100,000 square feet, but are predominantly between 20,000 and 50,000 square feet. Approximately 85% to 90% of store space is used for selling areas and the balance for warehouse, receiving and office space.

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The table below sets forth the locations of the Company's stores as of February 27, 2010:

Alabama	13
Alaska	2
Arizona	27
Arkansas	7
California	108
Colorado	25
Connecticut	23
Delaware	2
Florida	76
Georgia	27
Idaho	7
Illinois	42
Indiana	21
Iowa	8
Kansas	8
Kentucky	8
Louisiana	13
Maine	7
Maryland	20
Massachusetts	42
Michigan	35
Minnesota	9
Mississippi	7
Missouri	14
Montana	6
Nebraska	5
Nevada	8
New Hampshire	13
New Jersey	80
New Mexico	5
New York	87
North Carolina	30
North Dakota	2
Ohio	39
Oklahoma	7
Oregon	9
Pennsylvania	39
Rhode Island	5
South Carolina	13
South Dakota	1
Tennessee	20
Texas	77
Utah	