BED BATH & BEYOND INC
Form 10-Q
January 04, 2012
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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 26, 2011

Commission File Number 0-20214

BED BATH & BEYOND INC.

(Exact name of registrant as specified in its charter)

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

650 Liberty Avenue, Union, New Jersey 07083

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

Number of shares outstanding of the issuer s Common Stock:

Class	**Outstanding at November 26, 2011**
Common Stock - $0.01 par value	241,245,857

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BED BATH & BEYOND INC. AND SUBSIDIARIES

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share data)

(unaudited)

	November 26, 2011	February 26, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 765,750	$ 1,183,587
Short term investment securities	761,930	605,608
Merchandise inventories	2,357,254	1,968,907
Other current assets	405,950	315,736
Total current assets	4,290,884	4,073,838
Long term investment securities	101,864	121,446
Property and equipment, net	1,160,994	1,116,297
Other assets	301,374	334,612
Total assets	$ 5,855,116	$ 5,646,193
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 954,281	$ 709,550
Accrued expenses and other current liabilities	346,871	306,847
Merchandise credit and gift card liabilities	197,932	193,061
Current income taxes payable	2,444	112,982
Total current liabilities	1,501,528	1,322,440
Deferred rent and other liabilities	318,814	292,364
Income taxes payable	124,262	99,730
Total liabilities	1,944,604	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 330,366 and 325,222 shares, respectively; outstanding 241,246 and 251,666 shares, respectively	3,304	3,253
Additional paid-in capital	1,396,084	1,191,123
Retained earnings	6,184,781	5,546,287
Treasury stock, at cost; 89,120 and 73,556 shares, respectively	(3,673,390)	(2,814,104)
Accumulated other comprehensive (loss) income	(267)	5,100
Total shareholders equity	3,910,512	3,931,659
Total liabilities and shareholders equity	$ 5,855,116	$ 5,646,193

See accompanying Notes to Consolidated Financial Statements.

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	November 26, 2011	**November 27, 2010**	**November 26, 2011**	**November 27, 2010**
Net sales	$ 2,343,561	$ 2,193,755	$ 6,767,576	$ 6,253,536
Cost of sales	1,384,868	1,297,247	4,000,312	3,707,074
Gross profit	958,693	896,508	2,767,264	2,546,462
Selling, general and administrative expenses	601,673	591,398	1,749,660	1,719,056
Operating profit	357,020	305,110	1,017,604	827,406
Interest (expense) income, net	(602)	1,996	(1,922)	2,839
Earnings before provision for income taxes	356,418	307,106	1,015,682	830,245
Provision for income taxes	127,874	118,532	377,188	322,363
Net earnings	$ 228,544	$ 188,574	$ 638,494	$ 507,882
Net earnings per share - Basic	$ 0.96	$ 0.75	$ 2.64	$ 1.98
Net earnings per share - Diluted	$ 0.95	$ 0.74	$ 2.60	$ 1.95
Weighted average shares outstanding - Basic	237,802	252,233	242,033	256,216
Weighted average shares outstanding - Diluted	241,718	255,936	246,019	259,834

See accompanying Notes to Consolidated Financial Statements.

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands, unaudited)

	Nine Months Ended	
	November 26, 2011	**November 27, 2010**
Cash Flows from Operating Activities:		
Net earnings	$ 638,494	$ 507,882
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	131,989	135,217
Stock-based compensation	34,682	33,316
Tax benefit from stock-based compensation	(430)	(2,589)
Deferred income taxes	13,596	(10,708)
Other	(1,262)	(1,247)
(Increase) decrease in assets:		
Merchandise inventories	(388,347)	(412,080)
Trading investment securities	(882)	(4,161)
Other current assets	(55,697)	(62,524)
Other assets	903	(2,562)
Increase (decrease) in liabilities:		
Accounts payable	238,495	247,991
Accrued expenses and other current liabilities	33,663	39,932
Merchandise credit and gift card liabilities	4,871	9,813
Income taxes payable	(97,435)	(62,331)
Deferred rent and other liabilities	15,850	32,118
Net cash provided by operating activities	568,490	448,067
Cash Flows from Investing Activities:		
Purchase of held-to-maturity investment securities	(1,277,815)	(1,146,153)
Redemption of held-to-maturity investment securities	1,128,125	920,645
Redemption of available-for-sale investment securities	15,550	16,525
Redemption of trading investment securities		42,825
Capital expenditures	(159,244)	(142,186)
Net cash used in investing activities	(293,384)	(308,344)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	161,705	91,083
Excess tax benefit from stock-based compensation	4,638	2,495
Repurchase of common stock, including fees	(859,286)	(489,068)
Net cash used in financing activities	(692,943)	(395,490)
Net decrease in cash and cash equivalents	(417,837)	(255,767)
Cash and cash equivalents:		

Beginning of period		1,183,587		1,096,100
End of period	$	765,750	$	840,333

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 26, 2011 and February 26, 2011 and the results of its operations for the three and nine months ended November 26, 2011 and November 27, 2010, respectively, and its cash flows for the nine months ended November 26, 2011 and November 27, 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.

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

As of November 26, 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 short term and 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.

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.

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The following table presents the valuation of the Company s financial assets as of November 26, 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
Short term - available-for-sale securities:			
Auction rate securities	$	$ 12.0	$ 12.0
Long term - available-for-sale securities:			
Auction rate securities		83.4	83.4
Long term - trading securities:			
Nonqualified deferred compensation plan assets	18.5		18.5
Total	$ 18.5	$ 95.4	$ 113.9

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 (loss) income	1.3
Redemptions at par	(15.6)
Balance on November 26, 2011, net of temporary valuation adjustment	$ 95.4

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

Included in cash and cash equivalents are credit and debit card receivables from banks, which typically settle within five business days, of $170.3 million and $61.9 million as of November 26, 2011 and February 26, 2011, respectively.

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4) Investment Securities

The Company s investment securities as of November 26, 2011 and February 26, 2011 are as follows:

(in millions)	November 26, 2011	February 26, 2011
Available-for-sale securities:		
Short term	$ 12.0	$ 5.8
Long term	83.4	103.9
Trading securities:		
Long term	18.5	17.6
Held-to-maturity securities:		
Short term	749.9	599.8
Total investment securities	$ 863.8	$ 727.1

Auction Rate Securities

As of November 26, 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 $1.9 million and $3.2 million, respectively. Since these valuation adjustments are deemed to be temporary, they are recorded in accumulated other comprehensive (loss) 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 November 26, 2011 and February 26, 2011, and none of them are mortgage-backed debt obligations. As of November 26, 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 $83.4 million and $103.9 million of these investments as long term investment securities at November 26, 2011 and February 26, 2011, respectively. During the nine months ended November 26, 2011, approximately $15.6 million of these securities were redeemed at par.

U.S. Treasury Securities

As of November 26, 2011 and February 26, 2011, the Company s short term held-to-maturity securities included approximately $749.9 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

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 $18.5 million and $17.6 million as of November 26, 2011 and February 26, 2011, respectively.

5) Property and Equipment

As of November 26, 2011 and February 26, 2011, included in property and equipment, net is accumulated depreciation and amortization of approximately $1.6 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, net of forfeitures, 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 26, 2011 was approximately $10.4 million ($6.7 million after tax or $0.03 per diluted share) and approximately $34.7 million ($21.8 million after tax or $0.09 per diluted share), respectively. Stock-based compensation expense for the three and nine months ended November 27, 2010 was approximately $10.7 million ($6.6 million after tax or $0.03 per diluted share) and approximately $33.3 million ($20.4 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 26, 2011 and November 27, 2010 was approximately $1.0 million and $0.9 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 November 26, 2011, unrecognized compensation expense related to the unvested portion of the Company s stock options and restricted stock awards was $23.9 million and $118.9 million, respectively, which is expected to be recognized over a weighted average period of 3.2 years and 4.0 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 or third quarters of fiscal 2011.

Black-Scholes Valuation Assumptions (1)	**Nine Months Ended**

	November 26, 2011	November 27, 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 nine months ended November 26, 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	(4,395)		36.80
Forfeited or expired	(8)		36.67
Options outstanding, end of period	6,251	$	38.86
Options exercisable, end of period	4,255	$	37.78

The weighted average fair value for the stock options granted during the first nine 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 November 26, 2011 was 3.4 years and $119.2 million, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options exercisable as of November 26, 2011 was 2.3 years and $85.6 million, respectively. The total intrinsic value for stock options exercised during the first nine months of fiscal 2011 and 2010 was $95.2 million and $31.8 million, respectively.

Net cash proceeds from the exercise of stock options for the first nine months of fiscal 2011 were $161.7 million and the net associated income tax benefit was $4.2 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 26, 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	874		55.91
Vested	(832)		35.91
Forfeited	(125)		38.04
Unvested restricted stock, end of period	4,492	$	39.41

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 nine months of fiscal 2011, the Company repurchased approximately 15.6 million shares of its common stock for a total cost of approximately $859.3 million, bringing the aggregate total of common stock repurchased to approximately 89.1 million shares for a total cost of approximately $3.7 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 nine months ended November 26, 2011 of approximately 0.5 million and 1.0 million, respectively, and for the three and nine months ended November 27, 2010 of approximately 0.8 million and 1.8 million, respectively, were excluded from the computation of diluted earnings per share as the effect would be anti-dilutive.

9) Lines of Credit

At November 26, 2011, the Company maintained two uncommitted lines of credit of $100 million each, with expiration dates of February 29, 2012 and September 2, 2012, respectively. 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 nine 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 $444.3 million and $393.4 million in the first nine months of fiscal 2011 and 2010, respectively.

The Company recorded an accrual for capital expenditures of $24.1 million and $19.2 million as of November 26, 2011 and November 27, 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 nine months ended November 26, 2011, the Company s net sales were $2.344 billion and $6.768 billion, respectively, an increase of approximately 6.8% and 8.2%, respectively, as compared with the three and nine months ended November 27, 2010.

- Comparable store sales for the fiscal third quarter of 2011 increased by approximately 4.1% as compared with an increase of approximately 7.0% for the corresponding period last year. For the nine months ended November 26, 2011, comparable store sales increased by approximately 5.5% as compared with an increase of approximately 7.6% for the nine months ended November 27, 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.

- Gross profit for the three months ended November 26, 2011 was $958.7 million, or 40.9% of net sales, compared with $896.5 million, or 40.9% of net sales, for the three months ended November 27, 2010. Gross profit for the nine months ended November 26, 2011 was $2.767 billion, or 40.9% of net sales, compared with $2.546 billion, or 40.7% of net sales, for the nine months ended November 27, 2010.

- Selling, general and administrative expenses (SG&A) for the three months ended November 26, 2011 were $601.7 million, or 25.7% of net sales, compared with $591.4 million, or 27.0% of net sales, for the three months ended November 27, 2010. SG&A for the nine months ended November 26, 2011 were $1.750 billion, or 25.9% of net sales, compared with $1.719 billion, or 27.5% of net sales, for the nine months ended November 27, 2010.

- The effective tax rate for the three months ended November 26, 2011 was 35.9% compared with 38.6% for the three months ended November 27, 2010. The effective tax rate for the nine months ended November 26, 2011 was 37.1% compared with 38.8% for the nine months ended November 27, 2010.

- For the three months ended November 26, 2011, the Company s net earnings per diluted share were $0.95 ($228.5 million), an increase of approximately 28%, as compared with net earnings per diluted share of $0.74 ($188.6 million) for the three months ended November 27, 2010. For the nine months ended November 26, 2011, the Company s net earnings per diluted share were $2.60 ($638.5 million), an increase of approximately 33%, as compared with net earnings per diluted share of $1.95 ($507.9 million) for the nine months ended November 27, 2010. The increases in net earnings per diluted share for the three and nine months ended November 26, 2011 are the result of the changes described above, as well as the impact of the Company s repurchases of its common stock.

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Capital expenditures for the nine months ended November 26, 2011 and November 27, 2010 were $159.2 million and $142.2 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 nine months ended November 26, 2011, the Company repurchased 5.6 million and 15.6 million shares, respectively, of its common stock at a total cost of approximately $327.7 million and $859.3 million, respectively. During the three and nine months ended November 27, 2010, the Company repurchased 5.0 million and 11.8 million shares, respectively, of its common stock at a total cost of approximately $210.7 million and $489.1 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 39 stores across all concepts. During the fiscal third quarter of 2011, the Company opened seven BBB stores, seven buybuy BABY stores, one CTS store and one Harmon store.

Results of Operations

Net Sales

Net sales for the three months ended November 26, 2011 were $2.344 billion, an increase of $149.8 million or approximately 6.8% over net sales of $2.194 billion for the corresponding quarter last year. For the three months ended November 26, 2011, approximately 59.8% 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 26, 2011, comparable store sales for 1,095 stores represented $2.264 billion of net sales and for the three months ended November 27, 2010, comparable store sales for 1,042 stores represented $2.098 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 26, 2011 was approximately 4.1%, as compared with an increase of approximately 7.0% for the comparable period last year. The increase in comparable store sales for the fiscal third 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 41% and 59% of net sales, respectively, for the three months ended November 26, 2011 and approximately 42% and 58% of net sales, respectively, for the three months ended November 27, 2010.

For the nine months ended November 26, 2011, net sales were $6.768 billion, an increase of $514.0 million or approximately 8.2% over net sales of $6.254 billion for the corresponding nine months last year. For the nine months ended November 26, 2011, approximately 66.1% 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 nine months ended November 26, 2011, comparable store sales for 1,077 stores represented $6.520 billion of net sales and for the nine months ended November 27, 2010, comparable store sales for 1,013 stores represented $5.943 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 26, 2011 was approximately 5.5%, as compared with an increase of approximately 7.6% for the comparable period last year. The increase in comparable store sales for the nine months ended November 26, 2011 was due to increases in both the number of transactions and the average transaction amount.

Sales of domestics merchandise and home furnishings for the Company accounted for approximately 42% and 58% of net sales, respectively, for the nine months ended November 26, 2011 and November 27, 2010.