

BED BATH & BEYOND INC
Form 10-Q
June 27, 2014

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 May 31, 2014

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)

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 May 31, 2014
Common Stock - \$0.01 par value	201,953,919

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)

	May 31, 2014	March 1, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 536,568	\$ 366,516
Short term investment securities	176,242	489,331
Merchandise inventories	2,699,722	2,578,956
Other current assets	422,717	379,807
Total current assets	3,835,249	3,814,610
Long term investment securities	89,746	87,393
Property and equipment, net	1,559,880	1,579,804
Goodwill	486,279	486,279
Other assets	391,174	387,947
Total assets	\$ 6,362,328	\$ 6,356,033
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,108,449	\$ 1,104,668
Accrued expenses and other current liabilities	369,039	385,954
Merchandise credit and gift card liabilities	290,055	284,216
Current income taxes payable	120,039	65,121
Total current liabilities	1,887,582	1,839,959
Deferred rent and other liabilities	489,334	486,996
Income taxes payable	91,065	87,791
Total liabilities	2,467,981	2,414,746
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 335,672 and 334,941 shares, respectively; outstanding 201,954 and 205,405 shares, respectively	3,357	3,350
Additional paid-in capital	1,708,520	1,673,217
Retained earnings	8,782,954	8,595,902
Treasury stock, at cost; 133,718 and 129,536 shares, respectively	(6,590,218)	(6,317,335)
Accumulated other comprehensive loss	(10,266)	(13,847)
Total shareholders' equity	3,894,347	3,941,287

Total liabilities and shareholders' equity	\$ 6,362,328	\$ 6,356,033
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See accompanying Notes to Consolidated Financial Statements.

BED BATH & BEYOND INC. AND SUBSIDIARIES
 Consolidated Statements of Earnings
 (in thousands, except per share data)
 (unaudited)

	Three Months Ended	
	May 31, 2014	June 1, 2013
Net sales	\$2,656,698	\$2,612,140
Cost of sales	1,625,813	1,579,169
Gross profit	1,030,885	1,032,971
Selling, general and administrative expenses	730,184	709,870
Operating profit	300,701	323,101
Interest expense, net	2,094	225
Earnings before provision for income taxes	298,607	322,876
Provision for income taxes	111,555	120,386
Net earnings	\$187,052	\$202,490
Net earnings per share - Basic	\$0.94	\$0.94
Net earnings per share - Diluted	\$0.93	\$0.93
Weighted average shares outstanding - Basic	199,619	215,451
Weighted average shares outstanding - Diluted	202,096	218,335

See accompanying Notes to Consolidated Financial Statements.

BED BATH & BEYOND INC. AND SUBSIDIARIES
 Consolidated Statements of Comprehensive Income
 (in thousands, unaudited)

	Three Months Ended	
	May 31, 2014	June 1, 2013
Net earnings	\$ 187,052	\$ 202,490
Other comprehensive income (loss):		
Change in temporary impairment of auction rate securities, net of taxes	38	(222)
Pension adjustment, net of taxes	72	167
Currency translation adjustment	3,471	(1,633)
Other comprehensive income (loss)	3,581	(1,688)
Comprehensive income	\$ 190,633	\$ 200,802

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	May 31, 2014	June 1, 2013
Cash Flows from Operating Activities:		
Net earnings	\$ 187,052	\$ 202,490
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	58,371	52,697
Stock-based compensation	18,162	14,803
Tax benefit from stock-based compensation	5,913	10,213
Deferred income taxes	(21,855)	(17,229)
Other	(298)	(302)
Increase in assets, net of effect of acquisitions:		
Merchandise inventories	(120,766)	(74,509)
Trading investment securities	(2,293)	(3,911)
Other current assets	(22,331)	(24,518)
Other assets	(1,780)	(3,898)
Increase (decrease) in liabilities, net of effect of acquisitions:		
Accounts payable	33,712	73,497
Accrued expenses and other current liabilities	(13,444)	(22,018)
Merchandise credit and gift card liabilities	5,839	11,464
Income taxes payable	58,192	49,151
Deferred rent and other liabilities	2,456	4,566
Net cash provided by operating activities	186,930	272,496
Cash Flows from Investing Activities:		
Purchase of held-to-maturity investment securities	(39,369)	(369,268)
Redemption of held-to-maturity investment securities	352,500	337,500
Capital expenditures	(67,918)	(64,966)
Net cash provided by (used in) investing activities	245,213	(96,734)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	9,705	22,469
Excess tax benefit from stock-based compensation	1,087	1,084
Repurchase of common stock, including fees	(272,883)	(324,436)
Net cash used in financing activities	(262,091)	(300,883)
Net increase (decrease) in cash and cash equivalents	170,052	(125,121)

Cash and cash equivalents:

Beginning of period	366,516	564,971
End of period	\$536,568	\$ 439,850

See accompanying Notes to Consolidated Financial Statements.

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 May 31, 2014 and March 1, 2014 and the results of its operations, comprehensive income and cash flows for the three months ended May 31, 2014 and June 1, 2013, 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 March 1, 2014 for additional disclosures, including a summary of the Company's significant accounting policies, and to subsequently filed Forms 8-K.

The Company accounts for its operations as two operating segments: North American Retail and Institutional Sales. The Institutional Sales operating segment, which is comprised of Linen Holdings, does not meet the quantitative thresholds under GAAP and therefore is not a reportable segment.

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. 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. 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 May 31, 2014, the Company's financial assets utilizing Level 1 inputs include long term trading 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).

Fair Value of Financial Instruments