

BED BATH & BEYOND INC  
Form 10-Q  
July 08, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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 30, 2009**

**Commission File Number 0-20214**

**BED BATH & BEYOND INC.**

(Exact name of registrant as specified in its charter)

**New York**  
(State of incorporation)

**11-2250488**  
(IRS Employer Identification No.)

**650 Liberty Avenue, Union, New Jersey 07083**

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

Class	Outstanding at May 30, 2009
Common Stock - \$0.01 par value	261,892,878

Table of Contents

**BED BATH & BEYOND INC. AND SUBSIDIARIES**



**INDEX**



***PART I - FINANCIAL INFORMATION***

Item 1. Financial Statements (unaudited)

Consolidated Balance Sheets  
May 30, 2009 and February 28, 2009

Consolidated Statements of Earnings  
Three Months Ended May 30, 2009 and May 31, 2008

Consolidated Statements of Cash Flows  
Three Months Ended May 30, 2009 and May 31, 2008

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

***PART II - OTHER INFORMATION***

Item 1. Legal Proceedings

Item 1A. Risk Factors

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

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits

Signatures

Exhibit Index

Certifications

Table of Contents**BED BATH & BEYOND INC. AND SUBSIDIARIES***Consolidated Balance Sheets**(in thousands, except per share data)**(unaudited)*

	May 30, 2009	February 28, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 855,434	\$ 668,209
Short term investment securities	2,000	2,000
Merchandise inventories	1,703,819	1,642,339
Other current assets	272,681	250,251
<b>Total current assets</b>	<b>2,833,934</b>	<b>2,562,799</b>
Long term investment securities	216,196	221,134
Property and equipment, net	1,120,393	1,148,435
Other assets	335,531	336,475
<b>Total assets</b>	<b>\$ 4,506,054</b>	<b>\$ 4,268,843</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 603,402	\$ 514,734
Accrued expenses and other current liabilities	247,256	247,508
Merchandise credit and gift card liabilities	160,629	165,621
Current income taxes payable	55,361	25,105
<b>Total current liabilities</b>	<b>1,066,648</b>	<b>952,968</b>
Deferred rent and other liabilities	232,790	227,209
Income taxes payable	96,264	88,212
<b>Total liabilities</b>	<b>1,395,702</b>	<b>1,268,389</b>
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 317,329 and 314,678 shares, respectively; outstanding 261,893 and 259,701 shares, respectively	3,173	3,147
Additional paid-in capital	911,339	878,568
Retained earnings	4,242,093	4,154,921
Treasury stock, at cost; 55,436 and 54,977 shares, respectively	(2,044,753)	(2,031,642)
Accumulated other comprehensive loss	(1,500)	(4,540)
<b>Total shareholders' equity</b>	<b>3,110,352</b>	<b>3,000,454</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,506,054</b>	<b>\$ 4,268,843</b>

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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)*

	<b>Three Months Ended</b>	
	<b>May 30, 2009</b>	<b>May 31, 2008</b>
Net sales	\$ 1,694,340	\$ 1,648,491
Cost of sales	1,027,522	992,491
Gross profit	666,818	656,000
Selling, general and administrative expenses	524,514	537,181
Operating profit	142,304	118,819
Interest income	1,767	4,530
Earnings before provision for income taxes	144,071	123,349
Provision for income taxes	56,899	46,572
Net earnings	\$ 87,172	\$ 76,777
Net earnings per share - Basic	\$ 0.34	\$ 0.30
Net earnings per share - Diluted	\$ 0.34	\$ 0.30
Weighted average shares outstanding - Basic	256,942	256,634
Weighted average shares outstanding - Diluted	258,764	259,263

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended</b>	
	<b>May 30, 2009</b>	<b>May 31, 2008</b>
<b>Cash Flows from Operating Activities:</b>		
Net earnings	\$ 87,172	\$ 76,777
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	44,779	43,619
Stock-based compensation	11,010	10,377
Tax benefit from stock-based compensation	(55)	2,672
Deferred income taxes	(5,081)	(6,736)
Other	54	
(Increase) decrease in assets:		
Merchandise inventories	(61,480)	(109,167)
Trading investment securities	(2,439)	(1,555)
Other current assets	(16,998)	(17,803)
Other assets	170	(626)
Increase (decrease) in liabilities:		
Accounts payable	98,819	44,545
Accrued expenses and other current liabilities	2,220	(2,868)
Merchandise credit and gift card liabilities	(4,992)	1,564
Income taxes payable	34,856	19,347
Deferred rent and other liabilities	6,274	5,654
Net cash provided by operating activities	194,309	65,800
<b>Cash Flows from Investing Activities:</b>		
Redemption of available-for-sale investment securities	7,600	4,825
Capital expenditures	(26,588)	(51,673)
Investment in unconsolidated joint venture, including fees		(4,659)
Net cash used in investing activities	(18,988)	(51,507)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from exercise of stock options	23,303	11,214
Excess tax benefit from stock-based compensation	1,712	4,315
Repurchase of common stock, including fees	(13,111)	(13,651)
Net cash provided by financing activities	11,904	1,878
Net increase in cash and cash equivalents	187,225	16,171
<b>Cash and cash equivalents:</b>		
Beginning of period	668,209	224,084
End of period	\$ 855,434	\$ 240,255

See accompanying Notes to Consolidated Financial Statements.



Table of Contents

**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 30, 2009 and February 28, 2009 and the results of its operations and its cash flows for the three months ended May 30, 2009 and May 31, 2008, respectively.

The accompanying unaudited consolidated financial statements are presented in accordance with the requirements for Form 10-Q and consequently do not include all the disclosures normally required by U.S. generally accepted accounting principles. Reference should be made to Bed Bath & Beyond Inc.'s Annual Report on Form 10-K for the fiscal year ended February 28, 2009 for additional disclosures, including a summary of the Company's significant accounting policies, and to subsequently filed Forms 8-K.

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

**2) Recent Accounting Pronouncements**

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) SFAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. FSP SFAS 132(R)-1 amends SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits an Amendment of FASB Statements No. 87, 88 and 106. FSP SFAS 132(R)-1 requires more detailed disclosures about the assets of a defined benefit pension or other postretirement plan. FSP SFAS 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company does not believe FSP SFAS 132(R)-1 will have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments and Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting. This FSP requires the annual disclosures about the fair value of financial instruments required by SFAS No. 107 to be presented in interim financial statements. The FSP is effective for interim reporting periods ending after June 15, 2009. The Company does not believe FSP SFAS 107-1 and APB 28-1 will have a material impact on its consolidated financial statements.

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In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which modifies the recognition requirements for other-than-temporary impairments of debt securities and enhances existing disclosures with respect to other-than-temporary impairments of debt and equity securities. FSP SFAS 115-2 and SFAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not believe FSP SFAS 115-2 and SFAS 124-2 will have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides guidance on determining fair value when there is no active market or where the price inputs being used represent distressed sales. FSP SFAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not believe FSP SFAS 157-4 will have a material impact on its consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 was issued in order to establish principles and requirements for reviewing and reporting subsequent events and requires disclosure of the date through which subsequent events are evaluated and whether the date corresponds with the time at which the financial statements were available for issue (as defined) or were issued. SFAS No. 165 is effective for interim reporting periods ending after June 15, 2009. The Company does not believe SFAS No. 165 will have a material impact on its consolidated financial statements.

Table of Contents

**3) Fair Value Measurements**

The Company adopted SFAS No. 157, Fair Value Measurements, for financial assets and liabilities on March 2, 2008 and for non-financial assets and liabilities on March 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The adoption of SFAS No. 157 for financial and non-financial assets and liabilities did not have a material impact on the Company's consolidated financial statements.

Under SFAS No. 157, 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. SFAS No. 157 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect a company's judgment concerning the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

- 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 30, 2009, the Company's financial assets utilizing Level 1 inputs include short term and 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 and securities collateralized by student loans, and a related put option (See Investment Securities, Note 5).

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the Company's degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, SFAS No. 157 requires that an asset or liability 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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SFAS No. 157 requires that the 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 May 30, 2009 measured at fair value on a recurring basis by the input levels prescribed by SFAS No. 157:

Table of Contents

(in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	Total
Short term - available-for-sale securities	\$ 2.0	\$	\$ 2.0
Long term - available-for-sale securities		164.0	164.0
Long term - trading securities	8.9	41.3	50.2
Long term - put option		1.9	1.9
Total	\$ 10.9	\$ 207.2	\$ 218.1

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)	Significant Unobservable Inputs (Level 3)
Balance on February 28, 2009, net of temporary valuation adjustment	\$ 214.6
Change in temporary valuation adjustment included in accumulated other comprehensive loss	0.2
Unrealized loss included in earnings (1)	(0.1)
Change in valuation of Put Option	0.1