

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 June 1, 2002

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)

(I.R.S. 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 ☐

Number of shares outstanding of the issuer’s Common Stock:

Class	Outstanding at June 1, 2002
Common Stock - \$0.01 par value	292,067,802

TABLE OF CONTENTS

[BED BATH & BEYOND INC. AND SUBSIDIARIES](#)

[Consolidated Balance Sheets \(in thousands, except per share data\) \(unaudited\)](#)

[BED BATH & BEYOND INC. AND SUBSIDIARIES](#)

[Consolidated Statements of Earnings \(in thousands, except per share data\) \(unaudited\)](#)

[BED BATH & BEYOND INC. AND SUBSIDIARIES](#)

[Consolidated Statements of Cash Flows \(in thousands, unaudited\)](#)

[BED BATH & BEYOND INC. AND SUBSIDIARIES](#)

[Notes to Consolidated Financial Statements](#)

[MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS](#)

[PART II — OTHER INFORMATION](#)

[Item 4. Submission of Matters to a Vote of Security Holders](#)

[Item 6. Exhibits and Reports on Form 8-K](#)

[EX-10.1: AMENDED STOCK OPTION AGREEMENT](#)

BED BATH & BEYOND INC. AND SUBSIDIARIES

INDEX

	<i>Page No.</i>
PART I — FINANCIAL INFORMATION	
Consolidated Balance Sheets June 1, 2002 and March 2, 2002	3
Consolidated Statements of Earnings Three Months Ended June 1, 2002 and June 2, 2001	4
Consolidated Statements of Cash Flows Three Months Ended June 1, 2002 and June 2, 2001	5
Notes to Consolidated Financial Statements	6
Management's Discussion and Analysis of Financial Condition and Results of Operations	7-10
PART II- OTHER INFORMATION	
Item 4. Submission of Matters to a Vote of Security Holders	11
Item 6. Exhibits and Reports on Form 8-K	12
Exhibit Index	13

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

	June 1, 2002	March 2, 2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 380,435	\$ 429,496
Merchandise inventories	850,041	753,972
Other current assets	50,935	43,249
	<hr/>	<hr/>
Total current assets	1,281,411	1,226,717
	<hr/>	<hr/>
Investment securities	146,673	51,909
Property and equipment, net	357,914	361,741
Other assets	23,951	7,150
	<hr/>	<hr/>
	\$1,809,949	\$1,647,517
	<hr/>	<hr/>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 329,317	\$ 270,917
Accrued expenses and other current liabilities	225,813	190,923
Income taxes payable	58,327	49,438
	<hr/>	<hr/>
Total current liabilities	613,457	511,278
	<hr/>	<hr/>
Deferred rent and other liabilities	45,232	41,889
	<hr/>	<hr/>
Total liabilities	658,689	553,167
	<hr/>	<hr/>
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 and outstanding – June 1, 2002, 292,068 shares and March 2, 2002, 291,441 shares	2,921	2,914
Additional paid-in capital	249,276	238,672
Retained earnings	899,063	852,764
	<hr/>	<hr/>
Total shareholders' equity	1,151,260	1,094,350
	<hr/>	<hr/>
	\$1,809,949	\$1,647,517
	<hr/>	<hr/>

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	
	June 1, 2002	June 2, 2001
Net sales	\$776,798	\$575,833
Cost of sales	458,436	340,874
Gross profit	318,362	234,959
Selling, general and administrative expenses	245,661	189,357
Operating profit	72,701	45,602
Interest income	2,582	3,190
Earnings before provision for income taxes	75,283	48,792
Provision for income taxes	28,984	18,785
Net earnings	\$ 46,299	\$ 30,007
Net earnings per share — Basic	\$.16	\$.10
Net earnings per share — Diluted	\$.15	\$.10
Weighted average shares outstanding — Basic	291,726	288,467
Weighted average shares outstanding — Diluted	300,674	297,479

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	June 1, 2002	June 2, 2001
Cash Flows from Operating Activities:		
Net earnings	\$ 46,299	\$ 30,007
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	17,195	14,418
Tax benefit from exercise of stock options	6,947	13,113
Deferred income taxes	(3,177)	(288)
(Increase) decrease in assets, net of effect of acquisition:		
Merchandise inventories	(80,159)	(90,192)
Other current assets	(3,961)	(3,360)
Other assets	(1)	47
Increase in liabilities, net of effect of acquisition:		
Accounts payable	52,496	67,720
Accrued expenses and other current liabilities	30,771	16,632
Income taxes payable	7,139	3,264
Deferred rent and other liabilities	4,218	843
Net cash provided by operating activities	77,767	52,204
Cash Flows from Investing Activities:		
Purchase of investment securities	(94,764)	—
Acquisition, net of cash acquired	(24,097)	—
Capital expenditures	(11,631)	(24,421)
Net cash used in investing activities	(130,492)	(24,421)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	3,664	8,855
Net cash provided by financing activities	3,664	8,855
Net (decrease) increase in cash and cash equivalents	(49,061)	36,638
Cash and cash equivalents:		
Beginning of period	429,496	239,328
End of period	\$ 380,435	\$275,966

See accompanying Notes to Consolidated Financial Statements.

BED BATH & BEYOND INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1) Basis of Presentation

The accompanying consolidated financial statements, except for the March 2, 2002 consolidated balance sheet, have been prepared without audit. In the opinion of Management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of Bed Bath & Beyond Inc. and subsidiaries (the "Company") as of June 1, 2002 and March 2, 2002 and the results of their operations and their cash flows for the three months ended June 1, 2002 and June 2, 2001, respectively. Because of the seasonality of the specialty retailing business, operating results of the Company on a quarterly basis may not be indicative of operating results for the full year.

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 accounting principles generally accepted in the United States of America. Reference should be made to Bed Bath & Beyond Inc.'s Annual Report for the fiscal year ended March 2, 2002 for additional disclosures, including a summary of the Company's significant accounting policies.

2) Earnings Per Share

The Company presents earnings per share on a basic and diluted basis. Basic earnings per share has been computed by dividing net earnings by the weighted average number of shares outstanding. Diluted earnings per share has been computed by dividing net earnings by the weighted average number of shares outstanding including the dilutive effect of stock options.

3) Investment Securities

Investment securities at June 1, 2002 consist of U.S. Government Agency debt securities. Because the Company has the ability and intent to hold the securities until maturity, it classifies its securities as held-to-maturity. These investment securities are recorded at amortized cost, adjusted for the amortization of premiums.

Premiums are amortized over the life of the related held-to-maturity securities as an adjustment to interest using the effective interest method. Interest income is recognized when earned.

4) Acquisition

On March 5, 2002, the Company consummated the all cash acquisition of Harmon Stores, Inc. ("Harmon"), a health and beauty care retailer operating 28 stores, for \$24.1 million, net of cash acquired. The Company believes the acquisition will not have a material effect on its consolidated results of operations or financial condition in fiscal 2002.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS**

Results of Operations

Three Months Ended June 1, 2002 vs. Three Months Ended June 2, 2001

Net sales for the first quarter ended June 1, 2002 were \$776.8 million, an increase of \$201.0 million or approximately 34.9% over net sales of \$575.8 million for the corresponding quarter last year. Approximately 60% of the increase was attributable to new store net sales. The increase in comparable store net sales in the first quarter of 2002 was 13.2%. The increase in comparable store net sales is due to a number of factors, including but not limited to, the continued consumer acceptance of the Company's merchandise offerings, a strong focus on customer service and the continued success of the Company's advertising program. Approximately 55% and 45% of net sales for the first quarter were attributable to sales of domestics merchandise and home furnishings, respectively.

Gross profit for the first quarter of 2002 was \$318.4 million or 41.0% of net sales, compared with \$235.0 million or 40.8% of net sales during the first quarter of 2001. The increase in gross profit as a percentage of net sales was primarily attributable to a different mix of sales during the first quarter of 2002 compared to the first quarter of 2001.

Selling, general and administrative expenses ("SG&A") were \$245.7 million in the first quarter of 2002 compared with \$189.4 million in the same quarter last year and as a percentage of net sales were 31.6% and 32.9%, respectively. The decrease in SG&A as a percentage of net sales was primarily attributed to a relative decrease in occupancy costs and payroll and payroll related items.

As a result of the foregoing, operating profit increased to \$72.7 million, compared with the \$45.6 million during the first quarter of 2001.

Interest income decreased to \$2.6 million for the first quarter of 2002 compared to \$3.2 million for the first quarter of 2001 due to a decrease in the average investment rate partially offset by an increase in invested cash.

The effective tax rate was 38.5% for both the first quarter of 2002 and 2001 due to the weighted average effective tax rate remaining consistent in the states in which the Company currently conducts its business.

As a result of the factors described above, net earnings increased to \$46.3 million, compared with \$30.0 million in the first quarter of 2001.

Expansion Program

The Company is engaged in an ongoing expansion program involving the opening of new stores in both new and existing markets and the expansion or relocation of existing stores with larger stores. As a result of this program, the total number of Bed Bath & Beyond stores has increased to 409

[Table of Contents](#)

stores at the end of the first quarter of 2002 compared with 322 Bed Bath & Beyond stores at the end of the corresponding quarter last year. Additionally, the Company operates 28 Harmon stores as a result of the recent acquisition described below. Total square footage of Bed Bath & Beyond stores grew to 15.1 million square feet at the end of the first quarter of 2002 from 12.5 million square feet at the end of the first quarter of last year.

During the first quarter of fiscal 2002, the Company opened thirteen Bed Bath & Beyond stores resulting in an aggregate addition of 0.4 million square feet to total store space. The Company anticipates opening approximately 75 additional Bed Bath & Beyond stores by the end of the fiscal year, aggregating approximately 2.5 million square feet of additional store space.

Financial Condition

Total assets at June 1, 2002 were approximately \$1.8 billion compared with approximately \$1.6 billion at March 2, 2002, an increase of \$162.4 million. Of the total increase, \$54.7 million represented an increase in current assets and \$107.7 million represented an increase in non-current assets. The increase in current assets was primarily attributable to an increase in merchandise inventories offset by a decrease in cash and cash equivalents primarily due to the purchase of \$94.8 million in investment securities. These securities have a maturity between one and two years and are classified as long-term assets. The increase in merchandise inventories was principally the result of new store space. In non-current assets, the increase in investment securities was primarily attributable to the purchase of the \$94.8 million in investment securities and the increase in other assets was primarily attributable to the goodwill related to the Harmon acquisition.

Total liabilities at June 1, 2002 were \$658.7 million compared with \$553.2 million at March 2, 2002, an increase of \$105.5 million. The increase was primarily attributable to a \$58.4 million increase in accounts payable (resulting from an increase in inventories) and a \$34.9 million increase in accrued expenses and other current liabilities due to the continued expansion of the Company.

Shareholders' equity was \$1.2 billion at June 1, 2002 compared with \$1.1 billion at March 2, 2002. The increase primarily reflects net earnings for the first three months of fiscal 2002 and additional paid-in capital from the exercise of stock options.

Capital expenditures for the first three months of fiscal 2002 were \$11.6 million compared with \$24.4 million for the corresponding period last year. The decrease was primarily attributable to the timing of information technology and leasehold improvement expenditures during the first three months.

For fiscal 2002, the Company believes that its current operating cash flow, working capital, and cash and cash equivalents on hand are sufficient to meet its obligations in the ordinary course of business including capital expenditures and new store openings.

Recent Accounting Pronouncements

In the first quarter of fiscal 2002, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed

[Table of Contents](#)

Of,” while retaining many of the fundamental provisions covered by that statement. SFAS No. 144 differs fundamentally from SFAS No. 121 in that goodwill and other intangible assets, that are not amortized, are excluded from the scope of SFAS No. 144. SFAS No. 144 also expands the scope of discontinued operations to include more types of disposal transactions. The adoption of SFAS No. 144 did not have a material impact on the Company’s consolidated financial statements.

Additionally, in the first quarter of 2002, the Company adopted SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 142 discontinued the amortization of goodwill and other intangible assets with indefinite useful lives and requires periodic goodwill impairment testing. Consequently, the Company will not amortize any goodwill recognized as a result of the Harmon acquisition described below and will perform impairment testing as required. The Company does not believe that the adoption of SFAS No. 142 will have a material impact on the Company’s consolidated financial statements.

Acquisition

On March 5, 2002, the Company consummated the all cash acquisition of Harmon Stores, Inc., a health and beauty care retailer, for \$24.1 million, net of cash acquired. The Company believes the acquisition will not have a material effect on its consolidated results of operations or financial condition in fiscal 2002.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to establish accounting policies and to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on other assumptions that it believes to be relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. In particular, as further described below, judgment is used in areas such as the provision for sales returns, inventory valuation using the retail inventory method, impairment of assets and accruals for self insurance, litigation and store relocations and closings. Actual results could differ from these estimates.

Sales Returns: Sales returns, which are reserved for based on historical experience, are provided for in the period that the related sales are recorded.

Inventory Valuation: Merchandise inventories are stated at the lower of cost or market, using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories. At any one time, inventories include items that have been marked down to the Company’s best estimate of their fair market value.

Impairment of Assets: The Company periodically reviews long-lived assets for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flows. If it

[Table of Contents](#)

is determined that an impairment loss has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between asset carrying values and the present value of the estimated net cash flows. The Company does not believe that any material impairment currently exists related to its long-lived assets.

Self Insurance: The Company is self insured for various insurance programs. Self insurance liabilities are based on estimates of claims incurred that are to be paid in the future.

Litigation: The Company records an estimated liability related to various claims and legal actions arising in the ordinary course of business which is based on available information and assistance from outside counsel, where appropriate. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and may revise its estimates.

Store Opening, Expansion, Relocation and Closing Costs: Store opening and expansion costs are charged to earnings as incurred. Costs related to store relocations and closings are provided for in the period in which management approves the relocation or closing of a store.

Forward Looking Statements

This Form 10-Q may contain forward-looking statements. Many of these forward-looking statements can be identified by use of words such as may, will, expect, anticipate, estimate, assume, continue, project, plan, and similar words and phrases. The Company's actual results and future financial condition may differ materially from those expressed in any such forward-looking statements as a result of many factors that may be outside the Company's control. Such factors include, without limitation: general economic conditions, changes in the retailing environment and consumer spending habits, demographics and other macroeconomic factors that may impact the level of spending for the types of merchandise sold by the Company; unusual weather patterns; competition from existing and potential competitors; competition from other channels of distribution; pricing pressures; the ability to find suitable locations at reasonable occupancy costs to support the Company's expansion program; and the cost of labor, merchandise and other costs and expenses. The Company does not undertake any obligation to update its forward-looking statements.

PART II — OTHER INFORMATION

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

The Company's Annual Meeting was held on June 27, 2002. At the Annual Meeting, the following items were voted upon:

1. Election of four directors of the Corporation.
2. Ratification of the appointment of KPMG LLP as independent auditors for the fiscal year ending March 1, 2003.
3. A shareholder proposal.

The results of the voting were as follows:

Description	SHARES VOTED (in thousands)			
	For	Against/ Withheld		
1. Election of the Board of Directors:				
Leonard Feinstein	198,776	53,362		
Robert S. Kaplan	243,026	9,112		
Dean S. Adler	240,212	11,926		
Victoria A. Morrison	240,212	11,926		
	For	Against/ Withheld	Abstentions	
2. Appointment of Auditors:				
KPMG LLP	237,484	13,700	954	
	For	Against/ Withheld	Abstentions	Broker Non-Votes
3. Shareholder Proposal	55,157	154,826	11,368	30,787

Item 6. Exhibits and Reports on Form 8-K

- (a) The exhibit to this report is listed on the Exhibit Index included elsewhere herein.
- (b) No reports on Form 8-K were filed by the Company during the three month period ended June 1, 2002.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BED BATH & BEYOND INC.
(Registrant)

Date: July 12, 2002

By: */s/ Eugene A. Castagna*

Eugene A. Castagna
Vice President – Finance & Principal
Accounting Officer

EXHIBIT INDEX

<i>Exhibit No.</i>	<i>Exhibit</i>	<i>Page No.</i>
10.1	Amended Stock Option Agreement Dated as of March 15, 2002	14 -15

STOCK OPTION AGREEMENT dated as of _____, 200_, between BED BATH & BEYOND INC. (the "Company") and _____ ("you").

1. Option Grant. The Company grants you an option (the "Option") to purchase up to _____ shares of the Company's Common Stock at a price of \$_____ per share. The Option is not exercisable now but becomes exercisable in installments, which are cumulative, so that 20% of the number of shares originally subject to the Option will vest and become exercisable on each of the dates described on the Vesting Schedule below.
2. Option Plan. You agree that the Option is entirely subject to the terms of the Company's _____ Stock Option Plan (the "Plan"), which is described in the Prospectus for the Plan.
3. Type of Option. The Option is not intended to qualify as an "incentive stock option" under Section 422 of the Internal Revenue Code.
4. Termination. The Option terminates on the tenth anniversary of the date of this Agreement and as otherwise provided in the Plan. The Option will immediately terminate upon your termination of employment with the Company, except that (i) if termination is because of your death or disability, the portion of the Option vested and unexercised as of such termination date (the "Vested Portion") will remain exercisable for 12 months after termination and (ii) if termination is for any other reason, excluding cause, the Vested Portion will remain exercisable for three months after termination, although in all cases the Option will never be exercisable after the tenth anniversary of this Agreement. Upon termination for cause, the Vested Portion terminates immediately, together with the balance of the Option.
5. Exercise. You may exercise the Option by delivering to the Company your signed, written notice of the number of shares covered by your exercise, together with the full purchase price. Payment may be made by certified check, bank draft, or money order payable to the order of the Company or, if permitted by the Committee that administers the Plan (the "Committee"), through delivery of shares of the Company's Common Stock. The Committee may require you to pay the amount needed (or to make other arrangements) to pay any withholding taxes.
6. Transfer Restriction. Unless otherwise permitted by the Committee, the Option is non-transferable, except that, in case of your death, it may be transferred by will or the laws of descent and distribution. Only you (or your guardian or legal representative) may exercise the Option.
7. Notice. Any notice or communication to the Company concerning the Option must be in writing and delivered in person, or by United States mail, to the following address (or another address specified by the Company):

Bed Bath & Beyond Inc.
Finance Department – Stock Administration
650 Liberty Avenue
Union, New Jersey 07083

By: _____
Chief Executive Officer

Optionee

VESTING SCHEDULE

Total Option Grant: _____ shares

Date on Which Installment First Vests and Becomes Exercisable	Number of Shares in Installment
_____	_____