

BED BATH & BEYOND INC  
Form 10-Q  
July 06, 2016

**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 28, 2016**

**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**

Edgar Filing: BED BATH & BEYOND INC - Form 10-Q

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 28, 2016 |
|---------------------------------|-----------------------------|
| Common Stock - \$0.01 par value | 154,462,206                 |

BED BATH & BEYOND INC. AND SUBSIDIARIES

INDEX

***PART I - FINANCIAL INFORMATION***

Item 1. Financial Statements (unaudited)

Consolidated Balance Sheets

May 28, 2016 and February 27, 2016

Consolidated Statements of Earnings

Three Months Ended May 28, 2016 and May 30, 2015

Consolidated Statements of Comprehensive Income

Three Months Ended May 28, 2016 and May 30, 2015

Consolidated Statements of Cash Flows

Three Months Ended May 28, 2016 and May 30, 2015

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 6. Exhibits

Signatures

Exhibit Index

Certifications

- 2 -

## BED BATH &amp; BEYOND INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(in thousands, except per share data)

(unaudited)

|  | May 28,<br>2016 | February 27,<br>2016 |
|--|-----------------|----------------------|
| Assets   |                 |                      |
| Current assets:  |                 |                      |
| Cash and cash equivalents  | \$544,269       | \$515,573            |
| Short term investment securities   | 22,495          | 86,197               |
| Merchandise inventories  | 2,923,043       | 2,848,119            |
| Other current assets   | 408,224         | 376,073              |
| Total current assets   | 3,898,031       | 3,825,962            |
| Long term investment securities  | 78,349          | 71,289               |
| Property and equipment, net  | 1,723,429       | 1,725,043            |
| Goodwill   | 487,169         | 487,169              |
| Other assets   | 391,999         | 380,614              |
| Total assets   | \$6,578,977     | \$6,490,077          |
| Liabilities and Shareholders' Equity   |                 |                      |
| Current liabilities:   |                 |                      |
| Accounts payable   | \$1,145,055     | \$1,100,958          |
| Accrued expenses and other current liabilities   | 471,728         | 409,445              |
| Merchandise credit and gift card liabilities   | 306,431         | 297,930              |
| Current income taxes payable   | 53,933          | 58,892               |
| Total current liabilities  | 1,977,147       | 1,867,225            |
| Deferred rent and other liabilities  | 505,512         | 499,368              |
| Income taxes payable   | 75,977          | 72,807               |
| Long term debt   | 1,491,254       | 1,491,137            |
| Total liabilities  | 4,049,890       | 3,930,537            |
| Shareholders' equity:  |                 |                      |
| Preferred stock - \$0.01 par value; authorized - 1,000 shares; no shares issued or outstanding | -               | -                    |
|  | 3,392           | 3,377                |

Edgar Filing: BED BATH & BEYOND INC - Form 10-Q

|   |              |              |
|---|--------------|--------------|
| Common stock - \$0.01 par value; authorized - 900,000 shares; issued 339,150 and 337,613 shares, respectively; outstanding 154,462 and 156,690 shares, respectively |              |              |
| Additional paid-in capital  | 1,921,970    | 1,884,813    |
| Retained earnings   | 10,498,036   | 10,394,865   |
| Treasury stock, at cost; 184,688 and 180,923 shares, respectively   | (9,846,641 ) | (9,668,517 ) |
| Accumulated other comprehensive loss  | (47,670 )    | (54,998 )    |
| Total shareholders' equity  | 2,529,087    | 2,559,540    |
| Total liabilities and shareholders' equity  | \$6,578,977  | \$6,490,077  |

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 28,<br>2016    | May 30,<br>2015 |
| Net sales                                     | \$2,738,084        | \$2,738,495     |
| Cost of sales                                 | 1,714,492          | 1,694,362       |
| Gross profit                                  | 1,023,592          | 1,044,133       |
| Selling, general and administrative expenses  | 810,566            | 770,864         |
| Operating profit                              | 213,026            | 273,269         |
| Interest expense, net                         | 16,315             | 19,901          |
| Earnings before provision for income taxes    | 196,711            | 253,368         |
| Provision for income taxes                    | 74,092             | 94,917          |
| Net earnings                                  | \$122,619          | \$158,451       |
| Net earnings per share - Basic                | \$0.81             | \$0.94          |
| Net earnings per share - Diluted              | \$0.80             | \$0.93          |
| Weighted average shares outstanding - Basic   | 152,157            | 168,772         |
| Weighted average shares outstanding - Diluted | 153,752            | 171,133         |
| Dividends declared per share                  | \$0.125            | \$-             |

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 28,<br>2016    | May 30,<br>2015 |
| Net earnings  | \$ 122,619         | \$ 158,451      |
| Other comprehensive income (loss):                                      |                    |                 |
| Change in temporary impairment of auction rate securities, net of taxes | (276 )             | (36 )           |
| Pension adjustment, net of taxes  | 241                | (9 )            |
| Currency translation adjustment   | 7,363              | 977             |
| Other comprehensive income  | 7,328              | 932             |
| Comprehensive income  | \$ 129,947         | \$ 159,383      |

See accompanying Notes to Consolidated Financial Statements.



## BED BATH &amp; BEYOND INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(in thousands, unaudited)

|   | Three Months Ended |                 |
|---|--------------------|-----------------|
|   | May 28,<br>2016    | May 30,<br>2015 |
| Cash Flows from Operating Activities:   |                    |                 |
| Net earnings  | \$122,619          | \$158,451       |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                    |                 |
| Depreciation and amortization   | 70,445             | 62,617          |
| Stock-based compensation  | 20,748             | 17,740          |
| Excess tax benefit from stock-based compensation                                    | (1,325 )           | (9,335 )        |
| Deferred income taxes   | 4,153              | (4,234 )        |
| Other   | (479 )             | (403 )          |
| Increase in assets:   |                    |                 |
| Merchandise inventories   | (71,933 )          | (112,188)       |
| Trading investment securities   | (7,515 )           | (3,363 )        |
| Other current assets  | (32,502 )          | (26,846 )       |
| Other assets  | (11,946 )          | (6,909 )        |
| Increase (decrease) in liabilities:   |                    |                 |
| Accounts payable  | 66,260             | 7,307           |
| Accrued expenses and other current liabilities                                      | 42,631             | 27,779          |
| Merchandise credit and gift card liabilities  | 8,319              | 11,718          |
| Income taxes payable  | (4,932 )           | 25,591          |
| Deferred rent and other liabilities   | 3,300              | (1,017 )        |
| Net cash provided by operating activities   | 207,843            | 146,908         |
| Cash Flows from Investing Activities:   |                    |                 |
| Purchase of held-to-maturity investment securities                                  | -                  | (16,873 )       |
| Redemption of held-to-maturity investment securities                                | 63,742             | 50,000          |
| Capital expenditures  | (89,455 )          | (72,364 )       |
| Net cash used in investing activities   | (25,713 )          | (39,237 )       |
| Cash Flows from Financing Activities:   |                    |                 |
| Proceeds from exercise of stock options   | 19,246             | 7,536           |
| Excess tax benefit from stock-based compensation                                    | 1,325              | 9,335           |
| Repurchase of common stock, including fees  | (178,124)          | (385,349)       |

Edgar Filing: BED BATH & BEYOND INC - Form 10-Q

|  |           |           |
|--|-----------|-----------|
| Net cash used in financing activities                        | (157,553) | (368,478) |
| Effect of exchange rate changes on cash and cash equivalents | 4,119     | 463       |
| Net increase (decrease) in cash and cash equivalents         | 28,696    | (260,344) |
| Cash and cash equivalents:                                   |           |           |
| Beginning of period  | 515,573   | 875,574   |
| End of period  | \$544,269 | \$615,230 |

See accompanying Notes to Consolidated Financial Statements.

- 6 -

**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 28, 2016 and February 27, 2016 and the results of its operations, comprehensive income and cash flows for the three months ended May 28, 2016 and May 30, 2015, 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 27, 2016 for additional disclosures, including a summary of the Company's significant accounting policies, and to subsequently filed Forms 8-K.

Certain reclassifications have been made to the fiscal 2015 consolidated balance sheet and statement of cash flows to conform to the fiscal 2016 consolidated balance sheet and statement of cash flows presentation.

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. Net sales outside of the U.S. were not material for the three months ended May 28, 2016 and May 30, 2015.

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. Sales of domestics merchandise and home furnishings accounted for approximately 36.6% and 63.4% of net sales, respectively, for the three months ended May 28, 2016 and May 30, 2015. As the Company operates in the retail industry, its results of operations are affected by general economic conditions and consumer spending habits.

## ***2) Recent Accounting Pronouncements***

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This guidance requires an entity to present debt issuance costs related to a recognized debt liability on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Costs associated with line-of-credit arrangements may continue to be recorded as deferred assets. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with earlier adoption permitted. ASU 2015-03 must be adopted retrospectively to each prior reporting period presented. The Company adopted this guidance at the beginning of the first quarter of fiscal 2016 and reclassified debt issuance costs from other assets to long term debt on a retrospective basis. The adoption of this guidance and prior fiscal year reclassifications did not have a material impact on the Company's consolidated financial statements.

## ***3) 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 28, 2016, 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 5).

#### *Fair Value of Financial Instruments*

The Company's financial instruments include cash and cash equivalents, investment securities, accounts payable, long term debt 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 the financial instruments, excluding the Company's long term debt, is representative of their fair values. The fair value of the Company's long term debt is approximately \$1.400 billion, which is based on quoted prices in active markets for identical instruments (i.e., Level 1 valuation), compared to the carrying value of approximately \$1.500 billion.

#### **4) 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 \$101.0 million and \$89.4 million as of May 28, 2016 and February 27, 2016, respectively.

#### **5) Investment Securities**

The Company's investment securities as of May 28, 2016 and February 27, 2016 are as follows:

| (in millions)                  | May<br>28,<br>2016 | February<br>27,<br>2016 |
|--------------------------------|--------------------|-------------------------|
| Available-for-sale securities: |                    |                         |
| Long term                      | \$19.4             | \$19.8                  |
| Trading securities:            |                    |                         |
| Long term                      | 59.0               | 51.5                    |
| Held-to-maturity securities:   |                    |                         |
| Short term                     | 22.5               | 86.2                    |
| Total investment securities    | \$100.9            | \$157.5                 |

*Auction Rate Securities*

As of May 28, 2016 and February 27, 2016, the Company's long term available-for-sale investment securities represented approximately \$20.3 million par value of auction rate securities, respectively, consisting of preferred shares of closed end municipal bond funds, less temporary valuation adjustments of approximately \$0.9 million and \$0.5 million, respectively. Since these valuation adjustments are deemed to be temporary, they are recorded in accumulated other comprehensive loss, net of a related tax benefit, and did not affect the Company's net earnings.

*U.S. Treasury Securities*

As of May 28, 2016 and February 27, 2016, the Company's short term held-to-maturity securities included approximately \$22.5 million and \$86.2 million 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, which is based on quoted prices in active markets for identical instruments (i.e., Level 1 valuation).

*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 \$59.0 million and \$51.5 million as of May 28, 2016 and February 27, 2016, respectively.

**6) Property and Equipment**

As of May 28, 2016 and February 27, 2016, included in property and equipment, net is accumulated depreciation of approximately \$2.6 billion and \$2.5 billion, respectively.

**7) Long Term Debt**

*Senior Unsecured Notes*

On July 17, 2014, the Company issued \$300 million aggregate principal amount of 3.749% senior unsecured notes due August 1, 2024, \$300 million aggregate principal amount of 4.915% senior unsecured notes due August 1, 2034 and \$900 million aggregate principal amount of 5.165% senior unsecured notes due August 1, 2044 (collectively, the "Notes"). Interest on the Notes is payable semi-annually on February 1 and August 1 of each year.

The Notes were issued under an indenture (the "Base Indenture"), as supplemented by a first supplemental indenture (together, with the Base Indenture, the "Indenture"), which contains various restrictive covenants, which are subject to important limitations and exceptions that are described in the Indenture. The Company was in compliance with all covenants related to the Notes as of May 28, 2016.

*Revolving Credit Agreement*

On August 6, 2014, the Company entered into a \$250 million five year senior unsecured revolving credit facility agreement (“Revolver”) with various lenders. During the three months ended May 28, 2016, the Company did not have any borrowings under the Revolver.

The Revolver contains customary affirmative and negative covenants and also requires the Company to maintain a minimum leverage ratio. The Company was in compliance with all covenants related to the Revolver as of May 28, 2016.

Deferred financing costs associated with the Notes and the Revolver of approximately \$10.1 million were capitalized. In the accompanying Consolidated Balance Sheets, the deferred financing costs are included in long term debt, net of amortization, for the Notes and are included in other assets, net of amortization, for the Revolver. These deferred financing costs for the Notes and the Revolver are being amortized over the term of each of the Notes and the term of the Revolver and such amortization is included in interest expense, net in the Consolidated Statement of Earnings. Interest expense related to the Notes and the Revolver, including the commitment fee and the amortization of deferred financing costs, was approximately \$18.7 million for the three months ended May 28, 2016 and May 30, 2015.

*Lines of Credit*

At May 28, 2016, the Company maintained two uncommitted lines of credit of \$100 million each, with expiration dates of August 31, 2016 and February 26, 2017, 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 three months of fiscal 2016, 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.



### ***8) Shareholders' Equity***

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.

Between December 2004 and September 2015, the Company's Board of Directors authorized, through several share repurchase programs, the repurchase of \$11.950 billion of its shares of common stock. The Company also acquires shares of its common stock to cover employee related taxes withheld on vested restricted stock and performance stock unit awards. In the first three months of fiscal 2016, the Company repurchased approximately 3.8 million shares of its common stock for a total cost of approximately \$178.1 million, bringing the aggregate total of common stock repurchased to approximately 184.7 million shares for a total cost of approximately \$9.847 billion since the initial authorization in December 2004. The Company has approximately \$2.1 billion remaining of authorized share repurchases as of May 28, 2016.

On April 6, 2016, the Company's Board of Directors authorized a quarterly dividend program, and declared an initial quarterly dividend of \$0.125 per share to be paid on July 19, 2016 to shareholders of record as of the close of business on June 17, 2016. Subsequent to the end of the first quarter of fiscal 2016, on June 22, 2016, the Company's Board of Directors declared a quarterly dividend of \$0.125 per share to be paid on October 18, 2016 to shareholders of record as of the close of business on September 16, 2016. Future cash dividends on the Company's common stock are subject to the determination by the Board of Directors based on an evaluation of the Company's earnings, financial condition and requirements, business conditions and other factors.

### ***9) Stock-Based Compensation***

The Company measures all employee stock-based compensation awards using a fair value method and records such expense, net of estimated forfeitures, in its consolidated financial statements. Currently, the Company's stock-based compensation relates to restricted stock awards, stock options and performance stock units. The Company's restricted stock awards are considered nonvested share awards.

Stock-based compensation expense for the three months ended May 28, 2016 and May 30, 2015 was approximately \$20.7 million (\$12.9 million after tax or \$0.08 per diluted share) and \$17.7 million (\$11.1 million after tax or \$0.06 per diluted share), respectively. In addition, the amount of stock-based compensation cost capitalized for the three months ended May 28, 2016 and May 30, 2015 was approximately \$0.5 million.

### ***Incentive Compensation Plans***

The Company currently grants awards under the Bed Bath & Beyond 2012 Incentive Compensation Plan (the “2012 Plan”), which amended and restated the Bed Bath & Beyond 2004 Incentive Compensation Plan (the “2004 Plan”). The 2012 Plan includes an aggregate of 43.2 million common shares authorized for issuance and the ability to grant incentive stock options. Outstanding awards that were covered by the 2004 Plan continue to be in effect under the 2012 Plan.

The 2012 Plan is a flexible compensation plan that enables the Company to offer incentive compensation through stock options (whether nonqualified stock options or incentive stock options), restricted stock awards, stock appreciation rights, performance awards and other stock based awards, including cash awards. Under the 2012 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. Awards of performance stock units generally vest over a period of four years from the date of grant dependent on the Company’s achievement of performance-based tests and subject, in general, to the executive remaining in the Company’s service on specified vesting dates.

The Company generally issues new shares for stock option exercises, restricted stock awards and vesting of performance stock units.

*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, in each case, subject, in general to the recipient remaining in the Company's service on specified vesting dates. Option grants expire eight years after the date of grant. All option grants are nonqualified. As of May 28, 2016, unrecognized compensation expense related to the unvested portion of the Company's stock options was \$28.8 million, which is expected to be recognized over a weighted average period of 3.6 years.

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.

| Black-Scholes Valuation Assumptions (1)       | Three Months<br>Ended |                 |
|---|-----------------------|-----------------|
|   | May 28,<br>2016       | May 30,<br>2015 |
| Weighted Average Expected Life (in years) (2) | 6.6                   | 6.7             |
| Weighted Average Expected Volatility (3)      | 26.96 %               | 27.59 %         |
| Weighted Average Risk Free Interest Rates (4) | 1.46 %                | 1.93 %          |
| Expected Dividend Yield (5)                   | 1.10 %                | -               |

(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.

(5) Expected dividend yield is estimated based on anticipated dividend payouts.

Changes in the Company's stock options for the three months ended May 28, 2016 were as follows:

Edgar Filing: BED BATH & BEYOND INC - Form 10-Q

| (Shares in thousands)                    | Number<br>of Stock<br>Options | Weighted<br>Average<br>Exercise<br>Price |
|--|-------------------------------|--|
| Options outstanding, beginning of period | 3,838                         | \$ 54.43                                 |
| Granted                                  | 703                           | 45.53                                    |
| Exercised                                | (598 )                        | 32.16                                    |
| Forfeited or expired                     | -                             | -  |
| Options outstanding, end of period       | 3,943                         | \$ 56.22                                 |
| Options exercisable, end of period       | 2,292                         | \$ 54.58                                 |

The weighted average fair value for the stock options granted during the first three months of fiscal 2016 and 2015 was \$11.87 and \$23.12, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options outstanding as of May 28, 2016 was 4.8 years and \$6.4 million, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options exercisable as of May 28, 2016 was 3.3 years and \$6.4 million, respectively. The total intrinsic value for stock options exercised during the first three months of fiscal 2016 and 2015 was \$8.3 million and \$8.2 million, respectively.

Net cash proceeds from the exercise of stock options for the first three months of fiscal 2016 were \$19.2 million and the net associated income tax benefit was \$3.3 million.

*Restricted Stock*

Restricted stock awards are issued and measured at fair market value on the date of grant and generally become vested in five equal annual installments beginning one to three years from the date of grant, subject, in general, to the recipient remaining in the Company's service on specified vesting dates. 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 service 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. As of May 28, 2016, unrecognized compensation expense related to the unvested portion of the Company's restricted stock awards was \$151.2 million, which is expected to be recognized over a weighted average period of 4.5 years.

Changes in the Company's restricted stock for the three months ended May 28, 2016 were as follows:

| (Shares in thousands)                          | Number of<br>Restricted<br>Shares | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|--|-----------------------------------|---|
| Unvested restricted stock, beginning of period | 3,230                             | \$ 62.71  |
| Granted  | 808                               | 45.61   |
| Vested   | (626 )                            | 53.81   |
| Forfeited                                      | (49 )                             | 63.74   |
| Unvested restricted stock, end of period       | 3,363                             | \$ 60.24  |

*Performance Stock Units*

Performance stock units ("PSUs") are issued and measured at fair market value on the date of grant. Vesting of PSUs awarded to certain of the Company's executives is dependent on the Company's achievement of a performance-based test during a one-year period from the date of grant and during a three-year period from the date of grant and, assuming achievement of the performance-based test, time vesting over periods of up to four years, subject, in general, to the executive remaining in the Company's service on specified vesting dates. Performance during the one-year period will be based on Earnings Before Interest and Taxes ("EBIT") margin relative to a peer group of the Company and performance during the three-year period will be based on Return on Invested Capital ("ROIC") relative to such peer group. The awards based on EBIT margin and ROIC range from a floor of zero to a cap of 150% of target achievement. PSUs are converted into shares of common stock upon payment following vesting. Upon grant of the PSUs, the Company recognizes compensation expense related to these awards based on the assumption that 100% of the target award will be achieved. The Company evaluates the target assumption on a quarterly basis and adjusts compensation expense related to these awards, as appropriate. As of May 28, 2016, unrecognized compensation expense related to the unvested portion of the Company's performance stock units was \$41.3 million, which is expected to be recognized over a weighted average period of 2.5 years.

Changes in the Company's PSUs for the three months ended May 28, 2016 were as follows:

| (Shares in thousands)                                 | Number of<br>Performance<br>Stock Units | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|---|---|---|
| Unvested performance stock units, beginning of period | 627                                     | \$ 67.15  |
| Granted   | 566                                     | 45.53   |
| Vested  | (179 )                                  | 66.53   |
| Forfeited   | -                                       | -   |
| Unvested performance stock units, end of period       | 1,014                                   | \$ 55.19  |

#### ***10) 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-based awards as calculated under the treasury stock method.

Stock-based awards for the three months ended May 28, 2016 and May 30, 2015 of approximately 4.7 million and 1.5 million, respectively, were excluded from the computation of diluted earnings per share as the effect would be anti-dilutive.

***11) Supplemental Cash Flow Information***

The Company paid income taxes of \$75.2 million and \$71.7 million in the first three months of fiscal 2016 and 2015, respectively. In addition, the Company had interest payments of approximately \$2.2 million and \$2.3 million in the first three months of fiscal 2016 and 2015, respectively.

The Company recorded an accrual for capital expenditures of \$29.1 million and \$28.4 million as of May 28, 2016 and May 30, 2015, respectively.

**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 retailer which operates under the names Bed Bath & Beyond (“BBB”), Christmas Tree Shops, Christmas Tree Shops andThat! or andThat! (collectively, “CTS”), Harmon or Harmon Face Values (collectively, “Harmon”), buybuy BABY (“Baby”) and World Market, Cost Plus World Market or Cost Plus (collectively, “Cost Plus World Market”). Customers can purchase products from the Company either in-store, online, with a mobile device or through a contact center. The Company generally has the ability to have customer purchases picked up in-store or shipped direct to the customer from the Company’s distribution facilities, stores or vendors. In addition, the Company operates Of a Kind, an e-commerce website that features specially commissioned, limited edition items from emerging fashion and home designers, which was acquired in the second quarter of fiscal 2015. Subsequent to the end of the first quarter of fiscal 2016, the Company purchased One Kings Lane, an authority in home décor and design offering a unique collection of select home goods, designer and vintage items. The Company also operates Linen Holdings, a provider of a variety of textile products, amenities and other goods to institutional customers in the hospitality, cruise line, healthcare and other industries. Additionally, the Company is a partner in a joint venture which operates seven retail stores in Mexico under the name Bed Bath & Beyond.

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 U.S. generally accepted accounting principles and therefore is not a reportable segment.

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 strategy is centered on its customer-centric culture and commitment to customer service, supported by significant investments to strengthen the Company’s foundation for future growth:

- To do more for and with its customers wherever, whenever and however they wish to interact with the Company;

- To provide its customers a seamless experience whether they interact with the Company in a store, through one of its contact centers, on a desktop, tablet, smartphone or through social media;



To be viewed as the expert for the home, including the accompanying life stages that make a house a home, and to become the destination for customers' needs and wants as they express their life interests and travel through their life stages; all through the expanding and differentiated products, services and solutions the Company offers.

The Company's objective is to be its customers' first choice for products and services in the categories offered, in the markets, channels and countries in which the Company operates, as those customers express their life interests and travel through their various life stages. The Company strives to accomplish this objective through excellent customer service, including new products, services and solutions, and by offering an extensive breadth and depth of differentiated merchandise at the right value. The Company is also enhancing its ability to achieve this objective through its ongoing commitment to a world class information technology system, comprehensive analytics and targeted marketing and communications.

Operating in the highly competitive retail industry, the Company, along with other retail companies, is influenced by a number of factors including, but not limited to, general economic conditions including the housing market, unemployment levels and commodity prices; the overall macroeconomic environment and related changes in the retailing environment; consumer preferences, spending habits and adoption of new technologies; unusual weather patterns and natural disasters; competition from existing and potential competitors across all channels of distribution; potential supply chain disruption; the ability to find suitable locations at acceptable occupancy costs and other terms to support the Company's plans for new stores; and the ability to assess and implement technologies in support of the Company's development of its omnichannel capabilities. The Company cannot predict whether, when or the manner in which these factors could affect the Company's operating results.

The following represents an overview of the Company's financial performance for the periods indicated:

- For the three months ended May 28, 2016 and May 30, 2015, the Company's net sales were \$2.738 billion.

Comparable sales for the three months ended May 28, 2016 decreased by approximately 0.5%, as compared to an increase of approximately 2.2% for the three months ended May 30, 2015. For the three months ended May 28, 2016, comparable sales consummated through customer facing online websites and mobile applications increased in excess of 20% over the corresponding three month period in the prior year, while comparable sales consummated in-store declined in the low single-digit percentage range.

Comparable sales include sales consummated through all retail channels which have been operating for twelve full months following the opening period (typically four to six weeks). The Company is an omnichannel retailer with capabilities that allow a customer to use more than one channel when making a purchase, including in-store, online, with a mobile device or through a contact center, and have it fulfilled, in most cases, either through in-store customer pickup or by direct shipment to the customer from one of the Company's distribution facilities, stores or vendors.

Sales consummated on a mobile device while physically in a store location are recorded as customer facing online websites and mobile applications sales. Customer orders reserved online and picked up in a store are recorded as in-store sales. In-store sales are reduced by sales originally consummated from customer facing online websites and mobile applications and subsequently returned in-store.

Stores relocated or expanded are excluded from comparable 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. Of a Kind is excluded from the comparable sales calculation for first quarter of fiscal 2016, and will continue to be excluded until after the anniversary of the acquisition. Linen Holdings is excluded from the comparable sales calculations and will continue to be excluded on an ongoing basis as it represents non-retail activity.

Gross profit for the three months ended May 28, 2016 was \$1.024 billion, or 37.4% of net sales, compared with \$1.044 billion, or 38.1% of net sales, for the three months ended May 30, 2015.

Selling, general and administrative expenses ("SG&A") for the three months ended May 28, 2016 were \$810.6 million, or 29.6% of net sales, compared with \$770.9 million, or 28.1% of net sales, for the three months ended May 30, 2015.

Interest expense for the three months ended May 28, 2016 was \$16.3 million compared with \$19.9 million for the three months ended May 30, 2015.

The effective tax rate for the three months ended May 28, 2016 was 37.7% compared with 37.5% for the three months ended May 30, 2015. The tax rates included discrete tax items resulting in net benefits of approximately \$0.5 million and \$1.5 million, respectively, for the three months ended May 28, 2016 and May 30, 2015.

For the three months ended May 28, 2016, net earnings per diluted share were \$0.80 (\$122.6 million) as compared with net earnings per diluted share of \$0.93 (\$158.5 million) for the three months ended May 30, 2015. The decrease in net earnings per diluted share for the three months ended May 28, 2016 is the result of the decrease in net earnings due to the items described above, partially offset by the impact of the Company's repurchases of its common stock.

Capital expenditures for the three months ended May 28, 2016 and May 30, 2015 were \$89.5 million and \$72.4 million, respectively. In the first quarter of fiscal 2016 capital expenditures included expenditures for enhancements to the Company's digital, web and mobile capabilities, ongoing investments in data analytics, expenditures for the continued development and deployment of new systems and equipment in stores including a new POS system, spending related to the new distribution facility in Lewisville, Texas, investments in new stores, store relocations and store refurbishments and other projects. The Company continues to review and prioritize its capital needs and remains committed to making the required investments in its infrastructure to help position the Company for continued growth and success.

Several of the Company's key initiatives include: continuing to add new functionality and assortment to its selling websites, mobile sites and applications; improving customer data integration and customer relations management capabilities; continuing to enhance service offerings to its customers; continuing to strengthen and deepen its information technology, analytics, marketing and e-commerce groups; and creating more flexible fulfillment options that will improve the Company's delivery capabilities and lower the Company's shipping costs. These and other investments are expected to, among other things, provide a seamless and compelling customer experience across the Company's physical and digital shopping environments.

During the three months ended May 28, 2016, the Company opened a total of four new stores and closed one store. The Company plans to continue to actively manage its real estate portfolio in order to permit store sizes, layouts, locations and offerings to evolve over time to optimize market profitability and will renovate or reposition stores within markets when appropriate. During fiscal 2016, including the stores opened through May 28, 2016, the Company expects company-wide to open approximately 30 new stores, most of which are planned for new markets, close approximately 15 stores and open a new distribution facility. Additionally, during fiscal 2016, the Company expects to continue to invest in technology related projects and new stores, store relocations and store refurbishments.

During the three months ended May 28, 2016 and May 30, 2015, the Company repurchased approximately 3.8 million and 5.3 million shares, respectively, of its common stock at a total cost of approximately \$178.1 million and \$385.3 million, respectively.

On April 6, 2016, the Company's Board of Directors authorized a quarterly dividend program, and declared an initial quarterly dividend of \$0.125 per share to be paid on July 19, 2016 to shareholders of record as of the close of business on June 17, 2016. Subsequent to the end of the first quarter of fiscal 2016, on June 22, 2016, the Company's Board of Directors declared a quarterly dividend of \$0.125 per share to be paid on October 18, 2016 to shareholders of record as of the close of business on September 16, 2016. The Company expects to pay quarterly cash dividends on its common stock in the future, subject to the determination by the Board of Directors, based on an evaluation of the Company's earnings, financial condition and requirements, business conditions and other factors.

In addition to the quarterly dividend program, the Company's share repurchase program may be influenced by several factors, including business and market conditions. In addition, the Company reviews its alternatives with respect to its capital structure on an ongoing basis.

## ***Results of Operations***

### *Net Sales*

Net sales for the three months ended May 28, 2016 were \$2.738 billion, flat compared to the net sales for the corresponding quarter last year, due to an increase in net sales from new stores offset by a decrease in comparable sales.

The decrease in comparable sales for the three months ended May 28, 2016 was approximately 0.5% as compared to an increase of approximately 2.2%, for the three months ended May 30, 2015. The decrease in comparable sales for the three months ended May 28, 2016 was due to a decrease in the number of transactions, partially offset by an increase in the average transaction amount.

The Company's comparable sales metric considers sales consummated through all retail channels – in-store, online, with a mobile device or through a contact center. Customers today may take advantage of the Company's omnichannel environment by using more than one channel when making a purchase. The Company believes an integrated experience must exist among these channels to provide a seamless customer experience. A few examples are: a customer may be assisted by an in-store associate to create a wedding or baby registry, while the guests may ultimately purchase a gift from the Company's websites; or, a customer may research a particular item, and read other customer reviews on the Company's websites before visiting a store to consummate the actual purchase; or a customer may reserve an item online for in-store pick up; or while in a store, a customer may make the purchase on a mobile device for in home delivery from either a distribution facility, a store or directly from a vendor. In addition, the Company accepts returns in-store without regard to the channel in which the purchase was consummated, therefore resulting in reducing store sales by sales originally consummated through customer facing online websites and mobile applications. As the Company's retail operations are integrated and it cannot reasonably track the channel in which the ultimate sale is initiated, the Company can however provide directional information on where the sale was consummated.

For the three months ended May 28, 2016, comparable sales consummated through customer facing online websites and mobile applications increased in excess of 20% over the corresponding three month period in the prior year, while comparable sales consummated in-store declined in the low single-digit percentage range.

For the three months ended May 28, 2016 and May 30, 2015, comparable sales represented \$2.651 billion and \$2.649 billion of net sales, respectively.

Sales of domestics merchandise and home furnishings for the Company accounted for approximately 36.6% and 63.4% of net sales, respectively, for the three months ended May 28, 2016 and May 30, 2015.

### *Gross Profit*

Gross profit for the three months ended May 28, 2016 was \$1.024 billion, or 37.4% of net sales, compared with \$1.044 billion, or 38.1% of net sales, for the three months ended May 30, 2015. The decrease in the gross profit margin as a percentage of net sales for the three months ended May 28, 2016 was primarily attributed to, in order of magnitude, a decrease in merchandise margin and an increase in coupon expense, resulting from increases in both redemptions and the average coupon amount. Also contributing to the decrease in gross profit margin as a percentage of net sales, to a lesser extent, was an increase in net direct to customer shipping expense.

### *Selling, General and Administrative Expenses*

SG&A for the three months ended May 28, 2016 was \$810.6 million, or 29.6% of net sales, compared with \$770.9 million, or 28.1% of net sales, for the three months ended May 30, 2015. The increase in SG&A, as a percentage of net sales, in order of magnitude, was attributable to an increase in payroll and payroll related items (including salaries) and an increase in technology expenses and related depreciation. Also contributing to the increase in SG&A as a percentage of net sales, to a lesser extent, was an increase in advertising expense due in part to the growth in digital advertising.

### *Operating Profit*

Operating profit for the three months ended May 28, 2016 was \$213.0 million, or 7.8% of net sales, compared with \$273.3 million, or 10.0% of net sales, during the comparable period last year. The changes in operating profit as a percentage of net sales were the result of the changes in gross profit margin and SG&A as a percentage of net sales as described above.

The Company believes operating margin compression is likely to continue in fiscal 2016 as a result of several items, including increases in, as a percentage of net sales, coupon expense, net direct to customer shipping expense, additional payroll start-up costs associated with the opening of the Company's Lewisville, Texas distribution facility,

investments in compensation and benefits, and technology-related expenses, including depreciation related to the Company's ongoing investments. In addition, the year-over-year comparison of operating margin will be impacted by the non-recurring benefit related to the state audit settlement which occurred in fiscal 2015.

#### *Interest Expense, net*

Interest expense, net for the three months ended May 28, 2016 was \$16.3 million compared to \$19.9 million for the three months ended May 30, 2015. For the three months ended May 28, 2016 and May 30, 2015, interest expense, net primarily related to interest on the senior unsecured notes issued in July 2014.

#### *Income Taxes*

The effective tax rate for the three months ended May 28, 2016 was 37.7% compared with 37.5% for the three months ended May 30, 2015. The tax rate for the three months ended May 28, 2016 included a net benefit of approximately \$0.5 million and the tax rate for the three months ended May 30, 2015 included a net benefit of approximately \$1.5 million, primarily due to the recognition of favorable discrete state tax items.

Potential volatility in the effective tax rate from quarter to quarter may occur as the Company is required each quarter to determine whether new information changes the assessment of both the probability that a tax position will effectively be sustained and the appropriateness of the amount of recognized benefit.

#### *Net Earnings*

As a result of the factors described above, net earnings for the three months ended May 28, 2016 were \$122.6 million compared with \$158.5 million for the corresponding period in fiscal 2015.

## *Growth*

The Company strives to do more for and with its customers by: offering an extensive breadth and depth of differentiated assortment of merchandise at the right value; presenting merchandise in a distinctive manner designed to maximize customer convenience and reinforce customer perception of a wide selection; and providing excellent customer service, including new products, services and solutions. The Company is pursuing its growth objectives by investing in its omnichannel capabilities, optimizing its store operations and market coverage, including international expansion; leveraging its combined expertise and product knowledge to provide products and services to hospitality, travel and other institutional customers; and continuously reviewing opportunities for strategic acquisitions.

The Company continues to expand, differentiate and leverage its merchandise assortment across all channels, concepts and countries in which it operates, to better engage with its customers wherever, whenever and however they express their life interests and travel through their life stages. Through its growing analytic capabilities and omnichannel marketing approaches, the Company strives to more efficiently and effectively understand and satisfy its customers' needs.

As of May 28, 2016, the Company operated 1,533 stores plus its various websites, other interactive platforms and distribution facilities. The Company's 1,533 stores operate in all 50 states, the District of Columbia, Puerto Rico and Canada, including: 1,021 BBB stores, 277 Cost Plus World Market stores, 105 Baby stores, 79 CTS stores and 51 Harmon stores. During the three months ended May 28, 2016, the Company opened a total of four new stores and closed one store. At the end of the first quarter of 2016, Company-wide total store square footage, net of openings and closings, for all of its concepts, was approximately 43.4 million square feet. In addition, the Company has distribution facilities totaling 6.1 million square feet. In addition, the Company has entered into a lease for a new distribution facility in Lewisville, Texas, which is planned to open in the fall of 2016, which will be approximately 800,000 square feet. The Company will continue to assess sites throughout the country in order to gain greater distribution efficiencies. The Company also operates websites including [bedbathandbeyond.com](http://bedbathandbeyond.com), [bedbathandbeyond.ca](http://bedbathandbeyond.ca), [worldmarket.com](http://worldmarket.com), [buybuybaby.com](http://buybuybaby.com), [buybuybaby.ca](http://buybuybaby.ca), [christmastreeshops.com](http://christmastreeshops.com), [harmondiscountry.com](http://harmondiscountry.com), [ofakind.com](http://ofakind.com), [harborlinen.com](http://harborlinen.com) and [t-ygroup.com](http://t-ygroup.com). Additionally, the Company is a partner in a joint venture which operated a total of seven stores as of May 28, 2016 in Mexico under the name Bed Bath & Beyond.

The Company plans to continue to expand its operations and invest in its infrastructure to reach its long-term objectives. During fiscal 2016, including the stores opened through May 28, 2016, the Company expects company-wide to open approximately 30 new stores, most of which are planned for new markets, close approximately 15 stores and open a new distribution facility. Additionally, in connection with leveraging its merchandise offerings and optimizing its operations, the Company continues to expand, across selected stores, the number of specialty departments such as health and beauty care, baby, specialty food, and beverage. Also, the Company is committed to the continued growth of its merchandise categories and channels and is growing the number of items it is able to have shipped directly to customers from a vendor. The continued growth of the Company is dependent, in part, upon the Company's ability to execute these and other key initiatives successfully.



***Liquidity and Capital Resources***

The Company has been able to finance its operations, including its growth, through internally generated funds. For fiscal 2016, the Company believes that it can continue to finance its operations, including its growth, share repurchases, cash dividends, planned capital expenditures and debt service obligations, through existing and internally generated funds. In addition, if necessary, the Company could borrow under its revolving credit facility. Capital expenditures for fiscal 2016 are planned to be approximately \$400 million to \$425 million, with a significant portion for technology related projects, which includes enhancements to the Company's digital, web and mobile capabilities, the continued deployment of new systems and equipment to the stores and other projects, and the remainder of the spend would be for the new distribution facility, new stores, store relocations and store refurbishments, and other projects. These planned capital expenditures are subject to the timing and composition of the projects. In addition, the Company reviews its alternatives with respect to its capital structure on an ongoing basis.

*Fiscal 2016 compared to Fiscal 2015*

Net cash provided by operating activities for the three months ended May 28, 2016 was \$207.8 million, compared with \$146.9 million in the corresponding period in fiscal 2015. Year over year, the Company experienced a decrease in cash used in the net components of working capital (primarily accounts payable and merchandise inventories) partially offset by a decrease in net earnings.

Retail inventory, which includes inventory in the Company's distribution facilities for direct to customer shipments, was approximately \$2.9 billion, an increase of approximately 2.3% compared to retail inventory as of May 30, 2015. The percentage increase was due in part to the growth in the inventory in the Company's distribution facilities for direct to customer shipments.

Net cash used in investing activities for the three months ended May 28, 2016 was \$25.7 million, compared with \$39.2 million in the corresponding period of fiscal 2015. For the three months ended May 28, 2016, net cash used in investing activities was due to \$89.5 million of capital expenditures, partially offset by \$63.7 million of redemptions of investment securities. For the three months ended May 30, 2015, net cash used in investing activities was primarily due to \$72.4 million of capital expenditures, partially offset by \$33.1 million of redemptions of investment securities, net of purchases.

Net cash used in financing activities for the three months ended May 28, 2016 was \$157.6 million, compared with \$368.5 million in the corresponding period of fiscal 2015. The decrease in net cash used in financing activities was primarily due to a decrease in common stock repurchases of \$207.2 million.

*Seasonality*

The Company's sales exhibit seasonality with sales levels generally higher in the calendar months of August, November and December, and generally lower in February.

*Critical Accounting Policies*

See "Critical Accounting Policies" under Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 27, 2016 ("2015 Form 10-K"), filed with the Securities and Exchange Commission ("SEC") and incorporated by reference herein. There were no changes to the Company's critical accounting policies during the first three months of fiscal 2016.

***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, approximate, estimate, assume, continue, model, 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. Such factors include, without limitation: general economic conditions including the housing market, a challenging overall macroeconomic environment and related changes in the retailing environment; consumer preferences, spending habits and adoption of new technologies; demographics and other macroeconomic factors that may impact the level of spending for the types of merchandise sold by the Company; civil disturbances and terrorist acts; unusual weather patterns and natural disasters; competition from existing and potential competitors; competition from other channels of distribution; pricing pressures; liquidity; the ability to attract and retain qualified employees in all areas of the organization; the cost of labor, merchandise and other costs and expenses; potential supply chain disruption due to political instability, labor disturbances, product recalls, financial or operational instability of suppliers or carriers, and other items; the ability to find suitable locations at acceptable occupancy costs and other terms to support the Company's plans for new stores; the ability to assess and implement technologies in support of the Company's development of its omnichannel capabilities; the ability to establish and profitably maintain the appropriate mix of digital and physical presence in the markets it serves; uncertainty in financial markets; disruptions to the Company's information technology systems including but not limited to security breaches of systems protecting consumer and employee information; reputational risk arising from challenges to the Company's or a third party supplier's compliance with various laws, regulations or standards, including those related to labor, health, safety, privacy or the environment; reputational risk arising from third-party merchandise or service vendor performance in direct home delivery or assembly of product for customers; changes to statutory, regulatory and legal requirements; new, or developments in existing, litigation, claims or assessments; changes to, or new, tax laws or interpretation of existing tax laws; changes to, or new, accounting standards; foreign currency exchange rate fluctuations; and the integration of acquired businesses. The Company does not undertake any obligation to update its forward-looking statements.

***Available Information***

The Company makes available as soon as reasonably practicable after filing with the SEC, free of charge, through its website, [www.bedbathandbeyond.com](http://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 or 15(d) of the Securities Exchange Act of 1934.

***Item 3. Quantitative and Qualitative Disclosures about Market Risk***

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment securities. The Company's market risks at May 28, 2016 are similar to those disclosed in Item 7A of the Company's 2015 Form 10-K.

As of May 28, 2016, the Company's investments include cash and cash equivalents of approximately \$544.3 million, short term investment securities of approximately \$22.5 and long term investments in auction rate securities of approximately \$19.4 million at weighted average interest rates of 0.16%, 0.37% and 0.15%, respectively. The book value of these investments is representative of their fair values.

The Company's senior unsecured notes have fixed interest rates and are not subject to interest rate risk. As of May 28, 2016, the fair value of the senior unsecured notes was \$1.400 billion, which is based on quoted prices in active markets for identical instruments compared to the carrying value of approximately \$1.500 billion.

***Item 4. Controls and Procedures***

(a)

***Disclosure Controls and Procedures***

The Company's management, with the participation of its Principal Executive Officer and Principal Financial Officer, have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-15(e) and 15d-15(e)) as of May 28, 2016 (the end of the period covered by this quarterly report on Form 10-Q). Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer have concluded that the Company's current disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

(b)

*Changes in Internal Control over Financial Reporting*

There were no changes in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

- 20 -

**PART II - OTHER INFORMATION*****Item 1. Legal Proceedings***

The Company is party to various legal proceedings arising in the ordinary course of business, which the Company does not believe to be material to the Company's business or financial condition.

***Item 1A. Risk Factors***

In addition to the other information set forth in this Form 10-Q, carefully consider the factors discussed under "Risk Factors" in the Company's 2015 Form 10-K as filed with the Securities and Exchange Commission. These risks could materially adversely affect the Company's business, financial condition and results of operations. These risks are not the only risks the Company faces. The Company's operations could also be affected by additional factors that are not presently known to the Company or by factors that the Company currently considers immaterial to its business.

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

The Company's purchases of its common stock during the first quarter of fiscal 2016 were as follows:

| <b>Period</b>                      | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>(1)</b> | <b>Average<br/>Price<br/>Paid per<br/>Share<br/>(2)</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans<br/>or Programs<br/>(1)</b> | <b>Approximate<br/>Dollar Value of<br/>Shares that<br/>May Yet Be<br/>Purchased<br/>Under the Plans<br/>or Programs (1)<br/>(2)</b> |
|------------------------------------|---|---|---|---|
| February 28, 2016 - March 26, 2016 | 861,700   | \$ 49.22  | 861,700   | \$2,241,063,800   |
| March 27, 2016 - April 23, 2016    | 837,100   | \$ 48.57  | 837,100   | \$2,200,403,624   |
| April 24, 2016 - May 28, 2016      | 2,066,900   | \$ 45.97  | 2,066,900   | \$2,105,384,173   |
| <b>Total</b>                       | <b>3,765,700</b>  | <b>\$ 47.29</b>   | <b>3,765,700</b>  | <b>\$2,105,384,173</b>  |

(1) Between December 2004 and September 2015, the Company's Board of Directors authorized, through several share repurchase programs, the repurchase of \$11.950 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. Shares purchased indicated in this table also include shares withheld to cover employee related taxes on vested restricted shares and performance stock unit awards.

(2) Excludes brokerage commissions paid by the Company.

***Item 6. Exhibits***

The exhibits to this Report are listed in the Exhibit Index included elsewhere herein.

***SIGNATURES***

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 6, 2016 By: /s/ Susan E. Lattmann  
Susan E. Lattmann  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)



**EXHIBIT INDEX**

**Exhibit No.    Exhibit**

10.1            Amended and Restated Nonqualified Deferred Compensation Plan (effective January 1, 2016)

10.2            Amended and Restated Nonqualified Deferred Compensation Plan (effective January 1, 2008)

10.3    Form of Performance Stock Unit Agreement under 2012 Incentive Compensation Plan (effective 2016)

31.1    Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2    Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

<sup>32</sup> Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

101.DEFBRL Taxonomy Extension Definition Linkbase Document

