

BED BATH & BEYOND INC
Form 10-Q
January 09, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended November 30, 2013

Commission File Number 0-20214

BED BATH & BEYOND INC.
(Exact name of registrant as specified in its charter)

New York
(State of incorporation)

11-2250488
(IRS Employer Identification No.)

650 Liberty Avenue, Union, New Jersey 07083
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Accelerated filer
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

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

| Class | Outstanding at November 30, 2013 |
|---------------------------------|----------------------------------|
| Common Stock - \$0.01 par value | 212,927,245 |

BED BATH & BEYOND INC. AND SUBSIDIARIES

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands, except per share data)
(unaudited)

| | November 30, 2013 | March 2, 2013 |
|---|----------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 471,064 | \$ 564,971 |
| Short term investment securities | 223,114 | 449,933 |
| Merchandise inventories | 2,881,561 | 2,466,214 |
| Other current assets | 478,865 | 386,367 |
| Total current assets | 4,054,604 | 3,867,485 |
| Long term investment securities | 87,021 | 77,325 |
| Property and equipment, net | 1,523,253 | 1,466,667 |
| Goodwill | 486,279 | 483,518 |
| Other assets | 393,332 | 384,957 |
| Total assets | \$ 6,544,489 | \$ 6,279,952 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,145,281 | \$ 913,365 |
| Accrued expenses and other current liabilities | 417,073 | 393,094 |
| Merchandise credit and gift card liabilities | 267,332 | 251,481 |
| Current income taxes payable | 3,674 | 77,270 |
| Total current liabilities | 1,833,360 | 1,635,210 |
| Deferred rent and other liabilities | 493,845 | 484,868 |
| Income taxes payable | 87,456 | 80,144 |
| Total liabilities | 2,414,661 | 2,200,222 |
| 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 334,914 and 332,696 shares, respectively; outstanding 212,927 and 221,489 shares, respectively | 3,349 | 3,327 |
| Additional paid-in capital | 1,658,082 | 1,540,451 |
| Retained earnings | 8,262,603 | 7,573,612 |
| Treasury stock, at cost; 121,987 and 111,207 shares, respectively | (5,785,579) | (5,033,340) |
| Accumulated other comprehensive loss | (8,627) | (4,320) |

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| | | |
|--|--------------|--------------|
| Total shareholders' equity | 4,129,828 | 4,079,730 |
| Total liabilities and shareholders' equity | \$ 6,544,489 | \$ 6,279,952 |

See accompanying Notes to Consolidated Financial Statements.

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

(in thousands, except per share data)

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | November 30, 2013 | November 24, 2012 | November 30, 2013 | November 24, 2012 |
| Net sales | \$2,864,837 | \$ 2,701,801 | \$8,300,649 | \$ 7,513,108 |
| Cost of sales | 1,743,147 | 1,627,791 | 5,032,504 | 4,519,230 |
| Gross profit | 1,121,690 | 1,074,010 | 3,268,145 | 2,993,878 |
| Selling, general and administrative expenses | 747,043 | 712,361 | 2,180,631 | 1,953,694 |
| Operating profit | 374,647 | 361,649 | 1,087,514 | 1,040,184 |
| Interest income (expense), net | 1,314 | (3,122) | (586) | (3,909) |
| Earnings before provision for income taxes | 375,961 | 358,527 | 1,086,928 | 1,036,275 |
| Provision for income taxes | 138,764 | 125,777 | 397,937 | 372,359 |
| Net earnings | \$237,197 | \$ 232,750 | \$688,991 | \$ 663,916 |
| Net earnings per share - Basic | \$1.13 | \$ 1.04 | \$3.24 | \$ 2.93 |
| Net earnings per share - Diluted | \$1.12 | \$ 1.03 | \$3.20 | \$ 2.89 |
| Weighted average shares outstanding - Basic | 209,704 | 223,687 | 212,430 | 226,362 |
| Weighted average shares outstanding - Diluted | 212,315 | 226,661 | 215,116 | 229,551 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|------------|
| | November | November | November | November |
| | 30, | 24, | 30, | 24, |
| | 2013 | 2012 | 2013 | 2012 |
| Net earnings | \$237,197 | \$ 232,750 | \$688,991 | \$ 663,916 |
| Other comprehensive income (loss): | | | | |
| Change in temporary impairment of auction rate securities, net of taxes | 280 | 622 | (608) | 1,041 |
| Pension adjustment, net of taxes | 1,208 | 342 | 1,571 | 790 |
| Currency translation adjustment | (1,197) | (73) | (5,270) | 906 |
| Other comprehensive income (loss) | 291 | 891 | (4,307) | 2,737 |
| Comprehensive income | \$237,488 | \$ 233,641 | \$684,684 | \$ 666,653 |

See accompanying Notes to Consolidated Financial Statements.

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

Nine Months Ended

November
30,
2013 November 24,
2012

Cash Flows from Operating Activities:

| | | |
|---|------------|------------|
| Net earnings | \$ 688,991 | \$ 663,916 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 160,672 | 139,411 |
| Stock-based compensation | 42,078 | 34,591 |
| Tax benefit from stock-based compensation | 12,676 | 13,056 |
| Deferred income taxes | 6,275 | (13,897) |
| Other | (1,007) | 826 |
| Increase in assets, net of effect of acquisitions: | | |
| Merchandise inventories | (415,347) | (496,100) |
| Trading investment securities | (10,702) | (3,508) |
| Other current assets | (101,907) | (86,975) |
| Other assets | (5,478) | (10,655) |
| Increase (decrease) in liabilities, net of effect of acquisitions: | | |
| Accounts payable | 244,761 | 292,305 |
| Accrued expenses and other current liabilities | 24,301 | 8,398 |
| Merchandise credit and gift card liabilities | 15,851 | 21,196 |
| Income taxes payable | (66,284) | 32,110 |
| Deferred rent and other liabilities | 7,056 | 12,742 |
| Net cash provided by operating activities | 601,936 | 607,416 |

Cash Flows from Investing Activities:

| | | |
|--|-----------|------------|
| Purchase of held-to-maturity investment securities | (682,339) | (393,578) |
| Redemption of held-to-maturity investment securities | 909,375 | 1,031,249 |
| Redemption of available-for-sale investment securities | - | 31,715 |
| Capital expenditures | (228,928) | (238,405) |
| Investment in unconsolidated joint venture | (3,436) | - |
| Payment for acquisitions, net of cash acquired | - | (643,098) |
| Payment for acquisition of trademarks | - | (40,000) |
| Net cash used in investing activities | (5,328) | (252,117) |

Cash Flows from Financing Activities:

| | | |
|--|-----------|------------|
| Proceeds from exercise of stock options | 54,431 | 31,660 |
| Excess tax benefit from stock-based compensation | 7,293 | 3,885 |
| Payment for credit facility assumed in acquisition | - | (25,511) |
| Repurchase of common stock, including fees | (752,239) | (696,237) |

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| | | |
|---|-----------|------------|
| Net cash used in financing activities | (690,515) | (686,203) |
| Net decrease in cash and cash equivalents | (93,907) | (330,904) |
| Cash and cash equivalents: | | |
| Beginning of period | 564,971 | 1,003,166 |
| End of period | \$471,064 | \$ 672,262 |

See accompanying Notes to Consolidated Financial Statements.

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BED BATH & BEYOND INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(unaudited)

1) Basis of Presentation

The accompanying consolidated financial statements have been prepared without audit. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals and elimination of intercompany balances and transactions) necessary to present fairly the financial position of Bed Bath & Beyond Inc. and subsidiaries (the "Company") as of November 30, 2013 and March 2, 2013 and the results of its operations and comprehensive income for the three and nine months ended November 30, 2013 and November 24, 2012, respectively, and its cash flows for the nine months ended November 30, 2013 and November 24, 2012, respectively.

The accompanying unaudited consolidated financial statements are presented in accordance with the requirements for Form 10-Q and consequently do not include all the disclosures normally required by U.S. generally accepted accounting principles ("GAAP"). Reference should be made to Bed Bath & Beyond Inc.'s Annual Report on Form 10-K for the fiscal year ended March 2, 2013 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 2012 consolidated statement of cash flows to conform to the fiscal 2013 consolidated 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.

2) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., "the exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including quoted market prices and discounted cash flows. The hierarchy for inputs used in measuring fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect a company's judgment concerning the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical instruments that the Company is able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

As of November 30, 2013, the Company's financial assets utilizing Level 1 inputs include long term investment securities traded on active securities exchanges. The Company did not have any financial assets utilizing Level 2 inputs. Financial assets utilizing Level 3 inputs included long term investments in auction rate securities consisting of preferred shares of closed end municipal bond funds (See "Investment Securities," Note 4).

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To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the Company's degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability must be classified in its entirety based on the lowest level of input that is significant to the measurement of fair value.

Valuation techniques used by the Company must be consistent with at least one of the three possible approaches: the market approach, income approach and/or cost approach. The Company's Level 1 valuations are based on the market approach and consist primarily of quoted prices for identical items on active securities exchanges. The Company's Level 3 valuations of auction rate securities, which had temporary valuation adjustments of approximately \$3.0 million and \$2.0 million as of November 30, 2013 and March 2, 2013, respectively, are based on the income approach, specifically, discounted cash flow analyses which utilize significant inputs based on the Company's estimates and assumptions. As of November 30, 2013, the inputs used in the Company's discounted cash flow analysis included current coupon rates ranging from 0.10% to 0.12%, an estimated redemption period of 5 years and a discount rate of 1.34%. The discount rate was based on market rates for risk-free tax-exempt securities, as adjusted for a risk premium to reflect the lack of liquidity of these investments. Assuming a higher discount rate, a longer estimated redemption period and lower coupon rates would result in a lower fair market value. Conversely, assuming a lower discount rate, a shorter estimated redemption period and higher coupon rates would result in a higher fair market value.

The following tables present the valuation of the Company's financial assets as of November 30, 2013 and March 2, 2013, measured at fair value on a recurring basis by input level:

| (in millions) | As of November 30, 2013 | | |
|--|--|--|----------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Unobservable Inputs (Level 3) | Total |
| Long term - available-for-sale securities: | | | |
| Auction rate securities | \$ - | \$ 48.0 | \$ 48.0 |
| Long term - trading securities: | | | |
| Nonqualified deferred compensation plan assets | 39.0 | - | 39.0 |
| Total | \$ 39.0 | \$ 48.0 | \$ 87.0 |

| (in millions) | As of March 2, 2013 | | |
|--|--|--|----------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Unobservable Inputs (Level 3) | Total |
| Long term - available-for-sale securities: | | | |
| Auction rate securities | \$ - | \$ 49.0 | \$ 49.0 |
| Long term - trading securities: | | | |
| Nonqualified deferred compensation plan assets | 28.3 | - | 28.3 |
| Total | \$ 28.3 | \$ 49.0 | \$ 77.3 |

The following table presents the changes in the Company's financial assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| (in millions) | Auction Rate Securities |
|---|----------------------------|
| Balance on March 2, 2013, net of temporary valuation adjustment | \$ 49.0 |
| Change in temporary valuation adjustment included in accumulated other comprehensive loss | (1.0) |
| Redemptions at par | - |
| Balance on November 30, 2013, net of temporary valuation adjustment | \$ 48.0 |

Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, investment securities, accounts payable and certain other liabilities. The Company's investment securities consist primarily of U.S. Treasury securities, which are stated at amortized cost, and auction rate securities, which are stated at their approximate fair value. The book value of all financial instruments is representative of their fair values.

3) Cash and Cash Equivalents

Included in cash and cash equivalents are credit and debit card receivables from banks, which typically settle within five business days, of \$196.2 million and \$87.8 million as of November 30, 2013 and March 2, 2013, respectively.

4) Investment Securities

The Company's investment securities as of November 30, 2013 and March 2, 2013 are as follows:

| (in millions) | November 30, 2013 | March 2, 2013 |
|--------------------------------|-------------------------|------------------|
| Available-for-sale securities: | | |
| Long term | \$ 48.0 | \$49.0 |
| Trading securities: | | |
| Long term | 39.0 | 28.3 |
| Held-to-maturity securities: | | |
| Short term | 223.1 | 449.9 |
| Total investment securities | \$ 310.1 | \$527.2 |

Auction Rate Securities

As of November 30, 2013 and March 2, 2013, the Company's available-for-sale investment securities represented approximately \$51.0 million par value of auction rate securities, less temporary valuation adjustments of approximately \$3.0 million and \$2.0 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. These securities at par are invested in preferred shares of closed end municipal bond funds, which are required, pursuant to the Investment Company Act of 1940, to maintain minimum asset coverage ratios of 200%. All of these available-for-sale investments carried triple-A credit ratings from one or more of the major credit rating agencies as of November 30, 2013 and March 2, 2013, and none of them are mortgage-backed debt obligations. As of November 30, 2013 and March 2, 2013, the Company's available-for-sale investments have been in

a continuous unrealized loss position for 12 months or more, however, the Company believes that the unrealized losses are temporary and reflect the investments' current lack of liquidity. Due to their lack of liquidity, the Company classified approximately \$48.0 million and \$49.0 million of these investments as long term investment securities at November 30, 2013 and March 2, 2013, respectively.

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U.S. Treasury Securities

As of November 30, 2013 and March 2, 2013, the Company's short term held-to-maturity securities included approximately \$223.1 million and approximately \$449.9 million, respectively, of U.S. Treasury Bills with remaining maturities of less than one year. These securities are stated at their amortized cost which approximates fair value, 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 \$39.0 million and \$28.3 million as of November 30, 2013 and March 2, 2013, respectively.

5) Property and Equipment

As of November 30, 2013 and March 2, 2013, included in property and equipment, net is accumulated depreciation and amortization of approximately \$2.0 billion and \$1.8 billion, respectively.

6) Stock-Based Compensation

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

Stock-based compensation expense for the three and nine months ended November 30, 2013 was approximately \$13.6 million (\$8.6 million after tax or \$0.04 per diluted share) and approximately \$42.1 million (\$26.7 million after tax or \$0.12 per diluted share), respectively. Stock-based compensation expense for the three and nine months ended November 24, 2012 was approximately \$10.8 million (\$7.0 million after tax or \$0.03 per diluted share) and approximately \$34.6 million (\$22.2 million after tax or \$0.10 per diluted share), respectively. In addition, the amount of stock-based compensation cost capitalized for the nine months ended November 30, 2013 and November 24, 2012 was approximately \$1.2 million and \$1.0 million, respectively.

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. 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.

The Company generally issues new shares for stock option exercises and restricted stock awards. As of November 30, 2013, unrecognized compensation expense related to the unvested portion of the Company's stock options and

restricted stock awards was \$28.1 million and \$141.6 million, respectively, which is expected to be recognized over a weighted average period of 2.9 years and 3.7 years, respectively.

Stock Options

Stock option grants are issued at fair market value on the date of grant and generally become exercisable in either three or five equal annual installments beginning one year from the date of grant for options issued since May 10, 2010, and beginning one to three years from the date of grant for options issued prior to May 10, 2010, in each case, subject, in general to the recipient remaining in the Company's employ or service on specified vesting dates. Option grants expire eight years after the date of grant for stock options issued since May 10, 2004, and expire ten years after the date of grant for stock options issued prior to May 10, 2004. All option grants are nonqualified.

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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) | Nine Months Ended | |
|---|-------------------|-------------------|
| | November 30, 2013 | November 24, 2012 |
| Weighted Average Expected Life (in years) (2) | 6.6 | 6.5 |
| Weighted Average Expected Volatility (3) | 29.27 % | 31.07 % |
| Weighted Average Risk Free Interest Rates (4) | 1.11 % | 1.14 % |
| Expected Dividend Yield | - | - |

(1) Forfeitures are estimated based on historical experience.

(2) The expected life of stock options is estimated based on historical experience.

(3) Expected volatility is based on the average of historical and implied volatility. The historical volatility is determined by observing actual prices of the Company's stock over a period commensurate with the expected life of the awards. The implied volatility represents the implied volatility of the Company's call options, which are actively traded on multiple exchanges, had remaining maturities in excess of twelve months, had market prices close to the exercise prices of the employee stock options and were measured on the stock option grant date.

(4) Based on the U.S. Treasury constant maturity interest rate whose term is consistent with the expected life of the stock options.

Changes in the Company's stock options for the nine months ended November 30, 2013 were as follows:

| (Shares in thousands) | Number of Stock Options | Weighted Average Exercise Price |
|--|-------------------------|---------------------------------|
| Options outstanding, beginning of period | 5,006 | \$ 42.32 |
| Granted | 563 | 69.78 |
| Exercised | (1,369) | 39.75 |
| Forfeited or expired | (2) | 38.30 |
| Options outstanding, end of period | 4,198 | \$ 46.84 |
| Options exercisable, end of period | 2,409 | \$ 39.11 |

The weighted average fair value for the stock options granted during the first nine months of fiscal 2013 and 2012 was \$22.28 and \$22.95, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options outstanding as of November 30, 2013 was 4.1 years and \$131.1 million, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options exercisable as of November 30, 2013 was 2.9 years and \$93.7 million, respectively. The total intrinsic value for stock options exercised during the first nine months of fiscal 2013 and 2012 was \$44.4 million and \$25.8 million, respectively.

Net cash proceeds from the exercise of stock options for the first nine months of fiscal 2013 were \$54.4 million and the net associated income tax benefit was \$20.0 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 employ or 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 employ on specified vesting dates. The Company recognizes compensation expense related to these awards based on the assumption that the performance-based test will be achieved. Vesting of restricted stock awarded to the Company's other employees is based solely on time vesting.

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Changes in the Company's restricted stock for the nine months ended November 30, 2013 were as follows:

| (Shares in thousands) | Number of Restricted Shares | Weighted Average Grant-Date Fair Value |
|--|-----------------------------------|---|
| Unvested restricted stock, beginning of period | 4,063 | \$ 45.98 |
| Granted | 975 | 69.77 |
| Vested | (959) | 38.36 |
| Forfeited | (126) | 52.13 |
| Unvested restricted stock, end of period | 3,953 | \$ 53.50 |

7) Shareholders' Equity

Between December 2004 and December 2012, the Company's Board of Directors authorized, through several share repurchase programs, the repurchase of \$7.450 billion of its shares of common stock. The Company has authorization to make repurchases from time to time in the open market or through other parameters approved by the Board of Directors pursuant to existing rules and regulations. The Company also purchases shares of its common stock to cover employee related taxes withheld on vested restricted stock awards. In the first nine months of fiscal 2013, the Company repurchased approximately 10.8 million shares of its common stock for a total cost of approximately \$752.2 million, bringing the aggregate total of common stock repurchased to approximately 122.0 million shares for a total cost of approximately \$5.8 billion since the initial authorization in December 2004. The Company has approximately \$1.7 billion remaining of authorized share repurchases as of November 30, 2013.

8) Earnings Per Share

The Company presents earnings per share on a basic and diluted basis. Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding, including the dilutive effect of stock-based awards as calculated under the treasury stock method.

Stock-based awards for the three and nine months ended November 30, 2013 of approximately 1.0 million and 1.2 million, respectively, and for the three and nine months ended November 24, 2012 of approximately 1.1 million and 1.2 million, respectively, were excluded from the computation of diluted earnings per share as the effect would be anti-dilutive.

9) Lines of Credit

At November 30, 2013, the Company maintained two uncommitted lines of credit of \$100 million each, with expiration dates of February 28, 2014 and September 2, 2014, respectively. These uncommitted lines of credit are currently and are expected to be used for letters of credit in the ordinary course of business. During the first nine months of fiscal 2013, the Company did not have any direct borrowings under the uncommitted lines of credit. Although no assurances can be provided, the Company intends to renew both uncommitted lines of credit before the respective expiration dates.

10) Supplemental Cash Flow Information

The Company paid income taxes of \$435.9 million and \$335.7 million in the first nine months of fiscal 2013 and 2012, respectively. In addition, the Company had interest payments of approximately \$6.9 million and \$3.6 million in the first nine months of fiscal 2013 and 2012, respectively.

The Company recorded an accrual for capital expenditures of \$24.1 million and \$25.1 million as of November 30, 2013 and November 24, 2012, respectively.

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11) Acquisitions

On June 1, 2012, the Company acquired Linen Holdings, LLC (“Linen Holdings”), a provider of a variety of textile products, amenities and other goods to institutional customers in the hospitality, cruise line, food service, healthcare and other industries, for an aggregate purchase price of approximately \$108.1 million. The purchase price includes approximately \$24.0 million for tradenames and approximately \$40.2 million for goodwill. Linen Holdings is included within the Institutional Sales operating segment. In the first quarter of fiscal 2013, the Company finalized the valuation of assets acquired and liabilities assumed.

Since the date of acquisition, the results of Linen Holdings’ operations, which are not material, have been included in the Company’s results of operations.

On June 29, 2012, the Company acquired Cost Plus, Inc. (“World Market”), a retailer selling a wide range of home decorating items, furniture, gifts, holiday and other seasonal items, and specialty food and beverages, for an aggregate purchase price of approximately \$560.5 million, including the payment of assumed borrowings of \$25.5 million under a credit facility. The acquisition was consummated by a wholly owned subsidiary of the Company through a tender offer and merger, pursuant to which the Company acquired all of the outstanding shares of common stock of World Market. World Market is included within the North American Retail operating segment. In the first quarter of fiscal 2013, the Company finalized the valuation of assets acquired and liabilities assumed. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

| (in millions) | As of June 29, 2012 |
|---|------------------------|
| Current assets | \$ 222.0 |
| Property and equipment and other non-current assets | 132.4 |
| Intangible assets | 211.6 |
| Goodwill | 247.4 |
| Total assets acquired | 813.4 |
| Accounts payable and other liabilities | (252.9) |
| Borrowings under credit facility | (25.5) |
| Total liabilities acquired | (278.4) |
| Total net assets acquired | \$ 535.0 |

Included within intangible assets above is approximately \$196.5 million for tradenames, which is not subject to amortization. The tradenames and goodwill are not expected to be deductible for tax purposes.

Since the date of acquisition, the results of World Market’s operations, which are not material, have been included in the Company’s results of operations and no proforma disclosure of financial information has been presented.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Bed Bath & Beyond Inc. and subsidiaries (the "Company") operates a chain of 1,491 retail stores, as of November 30, 2013, under the names Bed Bath & Beyond ("BBB"), a combination of the names Christmas Tree Shops or andThat! (collectively, "CTS"), Harmon or Harmon Face Values (collectively, "Harmon"), buybuy BABY and World Market, Cost Plus World Market or Cost Plus (collectively, "World Market"). The Company includes Linen Holdings, a provider of a variety of textile products, amenities and other goods to institutional customers in the hospitality, cruise line, food service, healthcare and other industries. (See Note 11 "Acquisitions" in the notes to the unaudited consolidated financial statements for information regarding the acquisitions of World Market and Linen Holdings). Additionally, the Company is a partner in a joint venture which operates four retail stores in Mexico under the name Bed Bath & Beyond, which includes one store opened since the beginning of the fiscal fourth quarter.

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 objective is to be a customer's first choice for products and services in the categories offered, in the markets in which the Company operates.

The Company's strategy is to achieve this objective through excellent customer service, an extensive breadth, depth and differentiated assortment in an omni-channel environment and introduction of new merchandising offerings, supported by the continuous development and improvement of its infrastructure.

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, relatively high unemployment and historically high commodity prices; the overall macroeconomic environment and related changes in the retailing environment; consumer preferences and spending habits; unusual weather patterns and natural disasters; competition from existing and potential competitors; evolving technology; and the ability to find suitable locations at acceptable occupancy costs and other terms to support the Company's expansion program. The Company cannot predict whether, when or the manner in which these factors could affect the Company's operating results.

For fiscal 2013, the results of operations include Linen Holdings and World Market from the beginning of the fiscal year. For fiscal 2012, the results of operations include Linen Holdings since the date of acquisition on June 1, 2012 and World Market since the date of acquisition on June 29, 2012.

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

- For the three and nine months ended November 30, 2013, the Company's net sales were \$2.865 billion and \$8.301 billion, respectively, an increase of approximately 6.0% and 10.5%, respectively, as compared with the three and nine months ended November 24, 2012.
- Comparable store sales for the fiscal third quarter of 2013 increased by approximately 1.3% as compared with an increase of approximately 1.7% for the corresponding period last year. For both the nine months ended November 30, 2013 and November 24, 2012, comparable store sales increased by approximately 2.7%.

A store is considered a comparable store when it has been open for twelve full months following its grand opening period (typically four to six weeks). Stores relocated or expanded are excluded from comparable store sales if the change in square footage would cause meaningful disparity in sales over the prior period. In the case of a store to be closed, such store's sales are not considered comparable once the store closing process has commenced. Linen Holdings is excluded from the comparable store sales calculations and will continue to be excluded on an ongoing basis as it represents non-retail activity. World Market was excluded from the comparable store sales calculations through the end of the fiscal first half of 2013, and is included beginning with the fiscal third quarter of 2013.

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- Gross profit for the three months ended November 30, 2013 was \$1.122 billion, or 39.2% of net sales, compared with \$1.074 billion, or 39.8% of net sales, for the three months ended November 24, 2012. Gross profit for the nine months ended November 30, 2013 was \$3.268 billion, or 39.4% of net sales, compared with \$2.994 billion, or 39.8% of net sales, for the nine months ended November 24, 2012.
- Selling, general and administrative expenses (“SG&A”) for the three months ended November 30, 2013 were \$747.0 million, or 26.1% of net sales, compared with \$712.4 million, or 26.4% of net sales, for the three months ended November 24, 2012. SG&A for the nine months ended November 30, 2013 were \$2.181 billion, or 26.3% of net sales, compared with \$1.954 billion, or 26.0% of net sales, for the nine months ended November 24, 2012.
- The effective tax rate for the three months ended November 30, 2013 was 36.9% compared with 35.1% for the three months ended November 24, 2012. The effective tax rate for the nine months ended November 30, 2013 was 36.6% compared with 35.9% for the nine months ended November 24, 2012. The tax rate included discrete items of an approximate \$4.9 million net benefit and \$9.1 million net benefit, respectively, for the three months ended November 30, 2013 and November 24, 2012 and an approximate \$17.2 million net benefit and \$24.3 million net benefit, respectively, for the nine months ended November 30, 2013 and November 24, 2012.
- For the three months ended November 30, 2013, net earnings per diluted share were \$1.12 (\$237.2 million), an increase of approximately 8.7%, as compared with net earnings per diluted share of \$1.03 (\$232.8 million) for the three months ended November 24, 2012. For the nine months ended November 30, 2013, net earnings per diluted share were \$3.20 (\$689.0 million), an increase of approximately 10.7%, as compared with net earnings per diluted share of \$2.89 (\$663.9 million) for the nine months ended November 24, 2012. The increases in net earnings per diluted share for the three and nine months ended November 30, 2013 are the result of the items described above, as well as the impact of the Company’s repurchases of its common stock.

During the nine months ended November 30, 2013, the Company continued the integration of the two fiscal 2012 acquisitions as well as advancing initiatives including: enhancing the omni-channel experience for its customers by replacing and adding additional functionality to both back end and customer facing systems; increasing the investment in people and systems to upgrade the Company’s data and analytics capabilities; substantially completing the building of a new information technology data center and continued equipping and staffing the facility which will enhance the Company’s disaster recovery capabilities and support its overall information technology systems; and retrofitting energy saving equipment in the Company’s stores.

Capital expenditures for the nine months ended November 30, 2013 and November 24, 2012 were \$228.9 million and \$238.4 million, respectively. The Company remains committed to making the required investments in its infrastructure to help position the Company for continued growth and success. The Company continues to review and prioritize its capital needs while continuing to make investments, principally for new stores, existing store improvements, information technology enhancements, including omni-channel capabilities, and other projects whose impact is considered important to its future.

During the three and nine months ended November 30, 2013, the Company repurchased approximately 2.3 million and 10.8 million shares, respectively, of its common stock at a total cost of approximately \$171.0 million and \$752.2 million, respectively. During the three and nine months ended November 24, 2012, the Company repurchased approximately 3.1 million and 10.8 million shares, respectively, of its common stock at a total cost of approximately \$190.7 million and \$696.2 million, respectively. Since the end of the fiscal third quarter of 2011, the Company has returned approximately 86% of its cash flows from operations to its shareholders through share repurchase programs.

The Company plans to continue to expand its operations and invest in its infrastructure to reach its long term objectives. For all of fiscal 2013, the Company expects that the total number of new store openings will be approximately 33 stores across all concepts. During the fiscal third quarter of 2013, the Company opened a total of 10

new stores. In addition, the Company continued to optimize its operations in a number of trade areas through renovating stores across concepts and repositioning stores in various markets, which also included the closing of three stores during the fiscal third quarter of 2013.

Results of Operations

Net Sales

Since fiscal 2012 was a fifty-three week year, fiscal 2013 started a week later than fiscal 2012. The comparable store sales calendar compares the same calendar weeks. The table below summarizes by fiscal quarter the time period for the financial reporting calendar and the comparable store sales calendar.

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| | Financial Reporting Calendar Fiscal 2013 (fifty-two weeks) | Fiscal 2012 (fifty-three weeks) |
|----------------|--|--------------------------------------|
| First Quarter | March 3, 2013 - June 1, 2013 | February 26, 2012 - May 26, 2012 |
| Second Quarter | June 2, 2013 - August 31, 2013 | May 27, 2012 - August 25, 2012 |
| Third Quarter | September 1, 2013 - November 30, 2013 | August 26, 2012 - November 24, 2012 |
| Fourth Quarter | December 1, 2013 - March 1, 2014 | November 25, 2012 - March 2, 2013 |
| | Comparable Store Sales Calendar Fiscal 2013 (fifty-two weeks) | Fiscal 2012 (fifty-two weeks) |
| First Quarter | March 3, 2013 - June 1, 2013 | March 4, 2012 - June 2, 2012 |
| Second Quarter | June 2, 2013 - August 31, 2013 | June 3, 2012 - September 1, 2012 |
| Third Quarter | September 1, 2013 - November 30, 2013 | September 2, 2012 - December 1, 2012 |
| Fourth Quarter | December 1, 2013 - March 1, 2014 | December 2, 2012 - March 2, 2013 |

Net sales for the three months ended November 30, 2013 were \$2.865 billion, an increase of \$163.0 million or approximately 6.0% over net sales of \$2.702 billion for the corresponding quarter last year. For the three months ended November 30, 2013, approximately 78% of the increase was attributable to an increase in sales of comparable stores based upon the financial reporting calendar (not the comparable store sales calendar) and the remaining 22% of the increase was primarily attributable to an increase in the Company's new store sales.

For the three months ended November 30, 2013, comparable store sales for 1,436 stores represented \$2.785 billion of net sales and for the three months ended November 24, 2012, comparable store sales for 1,143 stores represented \$2.369 billion of net sales. The number of stores includes only those which constituted a comparable store for the entire respective fiscal period. The increase in comparable store sales, which includes World Market beginning with the fiscal third quarter and excludes Linen Holdings, for the three months ended November 30, 2013 was approximately 1.3%, as compared with an increase of approximately 1.7% for the comparable period last year. The increase in comparable store sales for the fiscal third quarter of 2013 was due to an increase in the average transaction amount partially offset by a slight decrease in the number of transactions.

Sales of domestics merchandise and home furnishings for the Company accounted for approximately 36% and 64% of net sales, respectively, for the three months ended November 30, 2013 and approximately 39% and 61% of net sales, respectively, for the three months ended November 24, 2012.

For the nine months ended November 30, 2013, net sales were \$8.301 billion, an increase of \$787.5 million or approximately 10.5% over net sales of \$7.513 billion for the corresponding nine months last year. For the nine months

ended November 30, 2013, approximately 46% of the increase in net sales was attributable to the inclusion of World Market and Linen Holdings, approximately 40% of the increase was attributable to an increase in sales of comparable stores based upon the financial reporting calendar (not the comparable store sales calendar) and the remaining 14% of the increase was primarily attributable to an increase in the Company's new store sales.

For the nine months ended November 30, 2013, comparable store sales for 1,420 stores represented \$7.578 billion of net sales and for the nine months ended November 24, 2012, comparable store sales for 1,122 stores represented \$6.893 billion of net sales. The number of stores includes only those which constituted a comparable store for the entire respective fiscal period. The increase in comparable store sales, which includes World Market beginning with the fiscal third quarter and excludes Linen Holdings, for both the nine months ended November 30, 2013 and November 24, 2012 was approximately 2.7%. The increase in comparable store sales for the nine months ended November 30, 2013 was due to an increase in the average transaction amount and a slight increase in the number of transactions.

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Sales of domestics merchandise and home furnishings for the Company accounted for approximately 38% and 62% of net sales, respectively, for the nine months ended November 30, 2013 and approximately 40% and 60% of net sales, respectively, for the nine months ended November 24, 2012.

Gross Profit

Gross profit for the three months ended November 30, 2013 was \$1.122 billion, or 39.2% of net sales, compared with \$1.074 billion, or 39.8% of net sales, for the three months ended November 24, 2012. The decrease in the gross profit margin as a percentage of net sales for the three months ended November 30, 2013 was primarily attributed to an increase in inventory acquisition costs, an increase in coupons, due to increases in both redemptions and the average coupon amount, and a shift in the mix of merchandise sold to lower margin categories, partially offset by a reduction in markdowns.

Gross profit for the nine months ended November 30, 2013 was \$3.268 billion, or 39.4% of net sales, compared with \$2.994 billion, or 39.8% of net sales, for the nine months ended November 24, 2012. The decrease in the gross profit margin as a percentage of net sales for the nine months ended November 30, 2013 was primarily attributed to an increase in coupons, due to increases in both redemptions and the average coupon amount, and a shift in the mix of merchandise sold to lower margin categories.

Selling, General and Administrative Expenses

SG&A for the three months ended November 30, 2013 was \$747.0 million, or 26.1% of net sales, compared with \$712.4 million, or 26.4% of net sales, for the three months ended November 24, 2012. The decrease in SG&A as a percentage of net sales for the three months ended November 30, 2013 was primarily due to relative decreases in occupancy expenses (including rent) and payroll and payroll related items (including salaries), partially offset by a relative increase in other store expenses (including depreciation).

SG&A for the nine months ended November 30, 2013 was \$2.181 billion, or 26.3% of net sales, compared with \$1.954 billion, or 26.0% of net sales, for the nine months ended November 24, 2012. The increase in SG&A as a percentage of net sales for the nine months ended November 30, 2013 was primarily due to relative increases in payroll and payroll-related items (including workers' compensation and medical insurance) and advertising expenses. As a percentage of net sales, these expense items were higher due to the inclusion of the financial results of the acquisitions for the period prior to each of their one year anniversary, which occurred in the first half of fiscal 2013.

Operating Profit

Operating profit for the three months ended November 30, 2013 was \$374.6 million, or 13.1% of net sales, compared with \$361.6 million, or 13.4% of net sales, during the comparable period last year. For the nine months ended November 30, 2013, operating profit was \$1.088 billion, or 13.1% of net sales, compared with \$1.040 billion, or 13.8% of net sales, during the comparable period last year. The change in operating profit as a percentage of net sales was the result of the changes in gross profit margin and SG&A as a percentage of net sales described above.

Income Taxes

The effective tax rate for the three months ended November 30, 2013 was 36.9% compared with 35.1% for the three months ended November 24, 2012. The tax rate for the three months ended November 30, 2013 and November 24, 2012 included net benefits of approximately \$4.9 million and \$9.1 million, respectively, primarily due to the recognition of favorable discrete tax items.

The effective tax rate for the nine months ended November 30, 2013 was 36.6% compared with 35.9% for the nine months ended November 24, 2012. The tax rate for the nine months ended November 30, 2013 and November 24, 2012 included net benefits of approximately \$17.2 million and \$24.3 million, respectively, primarily due to the recognition of favorable discrete tax items.

The Company expects continued volatility in the effective tax rate from quarter to quarter because 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.

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Net Earnings

As a result of the factors described above, net earnings for the three and nine months ended November 30, 2013 were \$237.2 million and \$689.0 million, respectively, compared with \$232.8 million and \$663.9 million for the corresponding periods in fiscal 2012.

Expansion Program

The Company is engaged in an ongoing expansion program involving the opening of new stores in both new and existing markets, the expansion or renovation of existing stores, the repositioning of stores within markets when appropriate and the continuous review of strategic acquisitions.

As a result of this program, the Company operated 1,011 BBB stores, 269 World Market stores, 86 buybuy BABY stores, 76 CTS stores and 49 Harmon stores at the end of the fiscal third quarter of 2013, compared with 1,003 BBB stores, 264 World Market stores, 78 buybuy BABY stores, 74 CTS stores and 47 Harmon stores at the end of the corresponding quarter last year. At November 30, 2013, Company-wide total store square footage, net of openings and closings for all concepts, was approximately 42.5 million square feet. Additionally, the Company is a partner in a joint venture which operates four retail stores in Mexico under the name Bed Bath & Beyond, which includes one store opened since the beginning of the fiscal fourth quarter.

The Company plans to continue to expand its operations and invest in its infrastructure to reach its long term objectives. During the fiscal third quarter of 2013, the Company opened a total of 10 new stores. In addition, the Company continued to optimize its operations in a number of trade areas through renovating stores across concepts and repositioning stores in various markets, which also included the closing of three stores during the fiscal third quarter of 2013. For all of fiscal 2013, the Company expects that the total number of new store openings will be approximately 33 stores across all concepts. The continued growth of the Company is dependent, in part, upon the Company's ability to execute its expansion program successfully.

Liquidity and Capital Resources

The Company has been able to finance its operations, including its expansion program, entirely through internally generated funds. For fiscal 2013, the Company believes that it can continue to finance its operations, including its expansion program, share repurchase program and planned capital expenditures entirely through existing and internally generated funds. The Company periodically reviews its alternatives with respect to optimizing its capital structure. Capital expenditures for fiscal 2013, principally for new stores, existing store improvements, information technology enhancements, including omni-channel capabilities, and other projects are planned to be approximately \$340 million, subject to the timing and composition of the projects. Some of the initiatives included in capital expenditures for fiscal 2013 are: enhancing the omni-channel experience for its customers by replacing and adding additional functionality to both back end and customer facing systems, upgrading the Company's mobile sites and applications, enhancing network communications in the stores and developing future point of sale improvements; substantially completing the building of a new information technology data center and continued equipping and staffing the facility which will enhance disaster recovery capabilities and to support the Company's ongoing technology initiatives; and retrofitting energy saving equipment in the Company's stores.

Fiscal 2013 compared to Fiscal 2012

Net cash provided by operating activities for the nine months ended November 30, 2013 was \$601.9 million, compared with \$607.4 million in the corresponding period in fiscal 2012. Year over year, the Company experienced an increase in cash used by the net components of working capital (primarily income taxes payable and accounts payable, partially offset by merchandise inventories), which was partially offset by an increase in net earnings, as

adjusted for non-cash expenses (primarily depreciation and deferred taxes).

Retail inventory at cost per square foot was \$66.89 as of November 30, 2013, compared to \$65.52 as of November 24, 2012.

Net cash used in investing activities for the nine months ended November 30, 2013 was \$5.3 million, compared with \$252.1 million in the corresponding period of fiscal 2012. For the nine months ended November 30, 2013, net cash used in investing activities was primarily due to \$228.9 million of capital expenditures, partially offset by \$227.0 million of redemptions of investment securities, net of purchases. For the nine months ended November 24, 2012, net cash used in investing activities was due to payments of \$643.1 million related to the World Market and Linen Holdings acquisitions, \$238.4 million of capital expenditures and \$40.0 million for the acquisition of trademarks, partially offset by redemptions of \$669.4 million of investment securities, net of purchases.

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Net cash used in financing activities for the nine months ended November 30, 2013 was \$690.5 million, compared with \$686.2 million in the corresponding period of fiscal 2012. The increase in net cash used was primarily due to an increase in common stock repurchases of \$56.0 million, partially offset by a \$25.5 million payment in the prior year for a credit facility assumed in acquisition and a \$22.8 million increase in cash proceeds from the exercise of stock options.

Auction Rate Securities

As of November 30, 2013, the Company held approximately \$48.0 million of net investments in auction rate securities. Beginning in 2008, the auction process for the Company's auction rate securities failed and continues to fail. These failed auctions result in a lack of liquidity in the securities but do not affect the underlying collateral of the securities. All of these investments carry triple-A credit ratings from one or more of the major credit rating agencies. As of November 30, 2013, these securities had a temporary valuation adjustment of approximately \$3.0 million to reflect their current lack of liquidity. Since this valuation adjustment is deemed to be temporary, it was recorded in accumulated other comprehensive loss, net of a related tax benefit, and did not affect the Company's net earnings for the nine months ended November 30, 2013. The Company will continue to monitor the market for these securities and will expense any permanent changes to the value of the remaining securities, if any, as they occur.

The Company does not anticipate that any continuing lack of liquidity in its auction rate securities will affect its ability to finance its operations, including its expansion program, share repurchase program, and planned capital expenditures. The Company continues to monitor efforts by the financial markets to find alternative means for restoring the liquidity of these investments. These investments will remain primarily classified as non-current assets until the Company has better visibility as to when their liquidity will be restored. The classification and valuation of these securities will continue to be reviewed quarterly.

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 March 2, 2013 ("2012 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 nine months of fiscal 2013.

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 and spending habits; 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; the ability to attract and retain qualified employees in all areas of the organization; the cost of labor, merchandise and other costs and expenses; the ability to find suitable locations at acceptable occupancy costs and other terms to support the

Company's expansion program; uncertainty in financial markets; disruptions to the Company's information technology systems including but not limited to security breaches of the Company's systems protecting consumer and employee information; reputational risk arising from the acts of third parties; 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 including, without limitation, changes to lease accounting standards; and the integration of acquired businesses. The Company does not undertake any obligation to update its forward-looking statements.

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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, 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 November 30, 2013 are similar to those disclosed in Item 7A of the Company's 2012 Form 10-K.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

The Company's 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 November 30, 2013 (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 our management 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.

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 2012 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 third quarter of fiscal 2013 were as follows:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Approximate Dollar |
|--|--|---|---|---|
| | | | | Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) (2) |
| September 1, 2013 - September 28, 2013 | 899,000 | \$ 73.84 | 899,000 | \$ 1,770,569,319 |
| September 29, 2013 - October 26, 2013 | 684,500 | \$ 76.90 | 684,500 | \$ 1,717,928,129 |
| October 27, 2013 - November 30, 2013 | 674,500 | \$ 76.99 | 674,500 | \$ 1,665,999,159 |
| Total | 2,258,000 | \$ 75.71 | 2,258,000 | \$ 1,665,999,159 |

(1) Between December 2004 and December 2012, the Company's Board of Directors authorized, through several share repurchase programs, the repurchase of \$7.450 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 the withholding of a portion of restricted shares to cover taxes on vested restricted shares.

(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: January 8, 2014

By: /s/ Eugene A. Castagna
Eugene A. Castagna
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

| Exhibit No. | Exhibit |
|-------------|--|
| 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. |
| 32 | 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.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |