BED BATH & BEYOND INC
Form 10-K
April 29, 2014

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

FORM 10-K

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

For the fiscal year ended March 1, 2014

Commission File Number 0-20214

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

New York	11-2250488
(State or other jurisdiction of incorporation or organization)	(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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [x] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

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 [x] 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

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 [x]	Accelerated filer [ ]
Non-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 [x]

As of August 31, 2013, the aggregate market value of the common stock held by non-affiliates (which was computed by reference to the closing price on such date of such stock on the NASDAQ National Market) was $15,188,999,047.*

The number of shares outstanding of the registrant's common stock (par value $0.01 per share) at March 29, 2014: 204,016,305.

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement for the 2014 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A are incorporated by reference in Part III hereof.

* For purposes of this calculation, all outstanding shares of common stock have been considered held by non-affiliates other than the 8,765,040 shares beneficially owned by directors and executive officers, including in the case of the Co-Chairmen trusts and foundations affiliated with them. In making such calculation, the Registrant does not determine the affiliate or non-affiliate status of any shares for any other purpose.

TABLE OF CONTENTS

PART I

Unless otherwise indicated, the term "Company" refers collectively to Bed Bath & Beyond Inc. and subsidiaries as of March 1, 2014. The Company's fiscal year is comprised of the 52 or 53 week period ending on the Saturday nearest February 28. Accordingly, fiscal 2013 and fiscal 2011 represented 52 weeks and ended on March 1, 2014 and February 25, 2012, respectively. Fiscal 2012 represented 53 weeks and ended on March 2, 2013. Unless otherwise indicated, all references herein to periods of time (e.g., quarters and years) are to fiscal periods.

ITEM 1 – BUSINESS

Introduction

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 or through a mobile device. The Company has the developing ability to fulfill customer purchases by in store customer pick up or by direct shipment to the customer from the Company's distribution facilities, stores or vendors. 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, food service, healthcare and other industries. Additionally, the Company is a partner in a joint venture which operates four retail stores in Mexico under the name Bed Bath & Beyond.

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.

History

The Company was founded in 1971 by Leonard Feinstein and Warren Eisenberg, the Co-Chairmen of the Company. Each has more than 50 years of experience in the retail industry.

The Company commenced operations in 1971 with the opening of two stores, which primarily sold bed linens and bath accessories. In 1985, the Company introduced its first store carrying a full line of domestics merchandise and home furnishings. The Company began using the name "Bed Bath & Beyond" in 1987 in order to reflect the expanded product line offered by its stores and to distinguish its stores from conventional specialty retail stores offering only domestics merchandise or home furnishings. In 2002, the Company acquired Harmon, a health and beauty care retailer, which operated 27 stores at the time located in three states. In 2003, the Company acquired CTS, a retailer of giftware and household items, which operated 23 stores at the time located in six states. In 2007, the Company acquired Baby, a retailer of infant and toddler merchandise, which operated eight stores at the time located in four states. In 2007, the Company opened its first international BBB store in Ontario, Canada. In 2008, the Company became a partner in a joint venture which operated two stores at the time in the Mexico City market under the name "Home & More," which were rebranded as Bed Bath & Beyond in fiscal 2012. In June 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, and Cost Plus, Inc. ("Cost Plus World Market"), a retailer selling a wide range of home decorating items, furniture, gifts, holiday and other seasonal items, and specialty food and beverages, which operated 258 stores at the time located in 30 states under the names of World Market, Cost Plus World Market or Cost Plus.

4

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.

Total net sales of the Company were $11.504 billion, $10.915 billion and $9.500 billion for fiscal 2013, 2012 and 2011, respectively. Net sales outside of the U.S. were not material for fiscal 2013, 2012 and 2011. Refer to Part II, Item 7 and Item 8 of this Form 10-K for additional financial information.

Operations

It is the Company's goal to offer quality merchandise at competitive prices; to maintain a wide and differentiated assortment of merchandise; to present merchandise in a distinctive manner designed to maximize customer convenience and reinforce customer perception of a wide selection; and to emphasize dedication to customer service and satisfaction. The Company continues to grow, differentiate and leverage its assortment across all channels, concepts and countries in which it operates. In addition, the Company strives to more efficiently and effectively understand its customers' needs and communicate with them through its growing analytic capabilities and omnichannel marketing approaches.

Pricing. The Company believes in maintaining competitive prices. The Company regularly monitors price levels at its competitors in order to ensure that its prices are in accordance with its pricing philosophy. The Company believes that the application of its pricing philosophy is an important factor in establishing its reputation among customers.

Merchandise Assortment. 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 strives to tailor its merchandise mix as appropriate to respond to changing trends and conditions. The Company, on an ongoing basis, tests new merchandise categories and adjusts the categories of merchandise carried as part of its assortment and may add new product categories as appropriate. Additionally, the Company continues to integrate the merchandise assortments among its concepts. The Company believes that the process of adding new product categories, integrating the Company's merchandise within concepts, and expanding or reducing the size of various product categories in response to changing conditions is an important part of its merchandising strategy.

Merchandise Presentation. The Company has developed a style of merchandise presentation where groups of related product lines are presented together. The Company believes that this approach to merchandise presentation makes it easy for customers to locate products and reinforces customer perception of a wide selection.

Advertising. In general, the Company relies on "word of mouth advertising," its reputation for offering a wide assortment of quality merchandise at competitive prices and the use of paid advertising. Primary vehicles of paid advertising used by the Company include full-color circulars and other advertising pieces distributed via direct mail or inserts, as well as digital media including email, mobile, social and search advertising. Also, to support the opening of new stores, the Company primarily uses "grand opening" newspaper and direct mail advertising and email.

Customer Service. Customer service is at the heart of the Company's culture as it encourages and trains its associates and implements technology to create a better shopping experience for each and every customer. Through its customer centric policies and emphasis on life stage events, the Company stresses the importance of each customer relationship. The Company continues to focus its efforts and investments on ensuring that it builds and maintains each of these customer relationships.

5

Suppliers

In fiscal 2013, the Company purchased its merchandise from approximately 8,300 suppliers with the Company's largest supplier accounting for approximately 5% of the Company's merchandise purchases and the Company's 10 largest suppliers accounting for approximately 17% of such purchases. The Company purchases substantially all of its merchandise in the United States, the majority from domestic sources and the balance from importers. The Company purchases a small amount of its merchandise directly from overseas sources. The Company has no long term contracts for the purchase of merchandise. The Company believes that most merchandise, other than brand name goods, is available from a variety of sources and that most brand name goods can be replaced with comparable merchandise.

Distribution of Merchandise

A substantial portion of the Company's merchandise is shipped to stores or customers through a combination of third party, or the Company's, distribution facilities which are primarily located throughout the United States. The remaining merchandise is shipped directly from vendors. Shipments are made by contract carriers on a regular basis depending upon location.

See Item 2 – Properties for additional information regarding the Company's distribution facilities.

Employees

As of March 1, 2014, the Company employed approximately 58,000 persons in full-time and part-time positions. The Company believes that its relations with its employees are very good and that the labor turnover rate among its management employees is lower than that generally experienced within the industry.

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.

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, the evolution of its omnichannel shopping environment and the continuous review of strategic acquisitions.

In the 22-year period from the beginning of fiscal 1992 to the end of fiscal 2013, the chain has grown from 34 stores to 1,496 stores plus its various websites, other interactive platforms and distribution facilities. The Company's 1,496 stores operate in all 50 states, the District of Columbia, Puerto Rico and Canada, including: 1,014 BBB stores operating in all 50 states, the District of Columbia, Puerto Rico and Canada and through www.bedbathandbeyond.com and www.bedbathandbeyond.ca; 265 Cost Plus World Market stores operating in 31 states and the District of Columbia and through www.worldmarket.com; 90 Baby stores operating in 31 states and through www.buybuybaby.com; 77 CTS stores operating in 21 states and through www.christmastreeshops.com and www.andthat.com; and 50 Harmon stores operating in five states and through www.harmondiscount.com and www.facevalues.com. Total store square footage grew from approximately 0.9 million square feet at the beginning of fiscal 1992 to approximately 42.6 million square feet at the end of fiscal 2013. During fiscal 2013, the Company opened a total of 33 new stores, including 13 BBB stores throughout the United States and Canada and five Cost Plus World Market stores, eight Baby stores, four CTS stores and three Harmon stores throughout the United States. In addition, the Company continued to optimize its operations in a number of trade areas through renovating and repositioning stores in various markets, which included the closing of three BBB stores, four Cost Plus World Market stores and one CTS store. In fiscal 2013, consolidated store space, net of openings and closings for all concepts, increased by 0.6 million square feet. Additionally, the Company is a partner in a joint venture which opened one store during fiscal 2013 and as of March 1, 2014, operated a total of four retail stores in Mexico under the name Bed Bath & Beyond.

The Company expects to enhance its omnichannel capabilities as well as open new stores and expand existing stores as opportunities arise. The Company believes that throughout the United States and Canada, there is an opportunity to operate in excess of 1,300 BBB stores as well as grow Cost Plus World Market, CTS and Baby from coast to coast. Additionally, the Company will continue to open Harmon stores and place health and beauty care offerings in selected stores as well as specialty food and beverage departments in selected BBB stores. The Company is committed to the continued growth of its merchandise categories and channels.

The Company has built its management structure with a view toward its expansion and believes that, as a result, it has the management depth necessary to support its anticipated expansion program.

During fiscal 2012, the Company acquired Linen Holdings and Cost Plus World Market.

Competition

The Company operates in the fragmented and highly competitive retail industry. The Company competes with many different types of retailers, including omnichannel retailers, that sell many or most of the same products. Such competitors include, but are not limited to, department stores, specialty retailers, discount and mass merchandise retailers, national chains and online only retailers. In addition, the Company competes, to a more limited extent, with factory outlet stores. Other entities continue to introduce new concepts that include many of the product lines offered by the Company. There can be no assurance that the operation of competitors will not have a material adverse effect on the Company.

Tradenames and Service Marks

The Company uses the service marks "Bed Bath & Beyond," "buybuy BABY," "Christmas Tree Shops," "andThat!," "Harmo "Face Values," "Cost Plus," "World Market" and "Cost Plus World Market" in connection with its retail services. The Company has registered trademarks and service marks or is seeking registrations for these and other trademarks and service marks with the United States Patent and Trademark Office. The Company also has registered or has applications pending with the trademark registries of several foreign countries, including having registered the "Bed Bath & Beyond" name and logo in Canada and Mexico. The Company also files patent applications and seeks copyright registrations where it deems such to be advantageous to the business. Management believes that its name recognition and service marks are important elements of the Company's merchandising strategy.

Available Information

The Company makes available as soon as reasonably practicable after filing with the Securities and Exchange Commission ("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(a) or 15(d) of the Securities Exchange Act of 1934.

Executive Officers of the Registrant

The following table sets forth the name, age and business experience of the Executive Officers of the Registrant:

Name	Age	Positions
Warren Eisenberg	83	Co-Chairman and Director
Leonard Feinstein	77	Co-Chairman and Director
Steven H. Temares	55	Chief Executive Officer and Director
Arthur Stark	59	President and Chief Merchandising Officer
Matthew Fiorilli	57	Senior Vice President – Stores
Eugene A. Castagna	48	Chief Operating Officer
Susan E. Lattmann	46	Chief Financial Officer and Treasurer

Warren Eisenberg is a Co-Founder of the Company and has served as Co-Chairman since 1999. He has served as a Director since 1971. Mr. Eisenberg served as Chairman from 1992 to 1999, and served as Co-Chief Executive Officer from 1971 to 2003.

Leonard Feinstein is a Co-Founder of the Company and has served as Co-Chairman since 1999. He has served as a Director since 1971. Mr. Feinstein served as President from 1992 to 1999, and served as Co-Chief Executive Officer from 1971 to 2003.

Steven H. Temares has been Chief Executive Officer since 2003 and has served as a Director since 1999. Mr. Temares was President and Chief Executive Officer from 2003 to 2006, President and Chief Operating Officer from 1999 to 2003 and Executive Vice President and Chief Operating Officer from 1997 to 1999. Mr. Temares joined the Company in 1992.

Arthur Stark has been President and Chief Merchandising Officer since 2006. Mr. Stark has served as Chief Merchandising Officer since 1999 and was a Senior Vice President from 1999 to 2006. Mr. Stark joined the Company in 1977.

Matthew Fiorilli has been Senior Vice President - Stores since 1999. Mr. Fiorilli joined the Company in 1973.

Eugene A. Castagna has been Chief Operating Officer since February 2014. Mr. Castagna served as Chief Financial Officer and Treasurer from 2006 to 2014, Assistant Treasurer from 2002 to 2006 and as Vice President - Finance from 2000 to 2006. Mr. Castagna is a certified public accountant and joined the Company in 1994.

Susan E. Lattmann has been Chief Financial Officer and Treasurer since February 2014. Ms. Lattmann served as Vice President – Finance from 2006 to 2014, Vice President - Controller from 2001 to 2006 and Controller from 2000 to 2001. Ms. Lattmann is a certified public accountant and joined the Company in 1996.

The Company's executive officers are elected by the Board of Directors for one-year terms and serve at the discretion of the Board of Directors. No family relationships exist between any of the executive officers or directors of the Company.

ITEM 1A – RISK FACTORS

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. 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 the following:

General economic factors beyond the Company's control and changes in the economic climate could adversely affect the Company's performance.

General economic factors that are beyond the Company's control impact the Company's forecasts and actual performance. These factors include housing markets, recession, inflation, deflation, consumer credit availability, consumer debt levels, fuel and energy costs, interest rates, tax rates and policy, unemployment trends, the impact of natural disasters, civil disturbances and terrorist activities, conditions affecting the retail environment for products sold by the Company and other matters that influence consumer spending. Changes in the economic climate could adversely affect the Company's performance.

The Company operates in the highly competitive retail business where the use of emerging technologies as well as unanticipated changes in the pricing and other practices of competitors may adversely affect the Company's performance.

The retail business is highly competitive. The Company competes for customers, employees, locations, merchandise, technology, services and other important aspects of the business with many other local, regional and national retailers. Those competitors range from specialty retailers to department stores and discounters as well as online and multichannel retailers. Specifically, rapidly evolving technologies are altering the manner in which the Company and its competitors communicate and transact with customers; the Company's execution of its own omnichannel strategy to adapt to these changes, in relation to its competitors' actions as well as to its customers adoption of new technology, presents a specific risk. Further, unanticipated changes in the pricing and other practices of the Company's competitors, including promotional activity and rapid price fluctuation enabled by technology, may adversely affect the Company's performance.

The Company's failure to anticipate and respond in a timely fashion to changes in consumer preferences and demographic factors may adversely affect the Company's financial condition and results of operations.

The Company's success depends on its ability to anticipate and respond in a timely manner to changing merchandise trends, customer demands and demographics. The Company's failure to anticipate, identify or react appropriately to changes in customer tastes, preferences, shopping and spending patterns and other lifestyle decisions could lead to, among other things, excess inventories or a shortage of products and may adversely affect the Company's financial condition and results of operations.

Unusual weather patterns could adversely affect the Company's performance.

The Company's operating results could be negatively impacted by unusual weather patterns. Frequent or unusually heavy snow, ice or rain storms, hurricanes, floods, tornados or extended periods of unseasonable temperatures could adversely affect the Company's performance.

A major disruption of the Company's information technology systems could negatively impact operating results.

The Company's operating results could be negatively impacted by a major disruption of the Company's information technology systems. The Company relies heavily on these systems to process transactions, manage inventory replenishment, summarize results and control distribution of products. Despite numerous safeguards and careful contingency planning, these systems are still subject to power outages, computer viruses, telecommunication failures, security breaches and other catastrophic events. A major disruption of the systems and their backup mechanisms may cause the Company to incur significant costs to repair the systems, experience a critical loss of data and/or result in business interruptions.

9

A breach of the Company's data security systems or those of its third party service providers could have a negative impact on the Company's operating results and financial performance due to possible loss of consumer confidence, as well as potential government penalties and private litigation.

The Company processes, transmits, stores and maintains certain information about its customers and employees in the ordinary course of business. In connection with certain activities, including without limitation credit card processing, website hosting, data encryption and software support, the Company utilizes third party service providers, and the Company believes it takes appropriate steps to require such providers to secure such information and to assess their ability to do so. The Company invests considerable resources in protecting this sensitive information but is still subject to a possible security event, including but not limited to cybercrimes or cybersecurity attacks which may not be detected for a period of time. A breach of its security systems or those of its third party service providers resulting in unauthorized access to stored personal information could negatively impact the Company’s operating results and financial performance. Certain aspects of the business, particularly the Company’s websites, heavily depend on consumers entrusting personal financial information to be transmitted securely over public networks. A loss of consumer confidence from such a breach could result in lost future sales and have a material adverse effect on the Company’s reputation. In addition, a breach could cause the Company to incur significant costs to restore the integrity of its systems, could require the devotion of significant management resources, and could result in significant costs in government penalties and private litigation.

A failure of the Company’s suppliers to adhere to appropriate laws or standards could negatively impact its reputation.

The Company purchases substantially all of its merchandise in the United States, the majority from domestic sources and the balance from importers. The Company purchases a small amount of its merchandise directly from overseas sources. The failure of one of the Company’s domestic or foreign suppliers to adhere to labor, environmental, health and safety laws and standards could negatively impact the Company’s reputation and have an adverse effect on the Company’s results of operations.

A failure to protect the reputation of the Company in any aspect of its operations could potentially impact its operating and financial results.

The Company’s reputation is based, in part, on perceptions of subjective qualities, so incidents involving the Company, its products or the retail industry in general that erode customer trust or confidence could adversely affect the Company’s reputation and its business. Challenges to the Company’s compliance with a variety of social, product, labor and environmental standards could also jeopardize its reputation and lead to adverse publicity, especially in social media outlets. Damage to the reputation of the Company in any aspect of its operations could potentially impact its operating and financial results as well as require additional resources to rebuild its reputation.

Changes in statutory, regulatory, and other legal requirements at a local, state or provincial and national level could potentially impact the Company’s operating and financial results.

The Company is subject to numerous statutory, regulatory and legal requirements at a local, state or provincial and national level. The Company’s operating results could be negatively impacted by developments in these areas due to the costs of compliance in addition to possible government penalties and litigation in the event of deemed noncompliance. Changes in the regulatory environment in the area of product safety, environmental protection, privacy and information security, wage and hour laws, among others, could potentially impact the Company’s operations and financial results.

New, or developments in existing, litigation, claims or assessments could potentially impact the Company’s operating and financial results.

The Company is involved in litigation, claims and assessments incidental to the Company's business, the disposition of which is not expected to have a material effect on the Company's financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in the Company's assumptions related to these matters. While outcomes of such actions vary, any such claim or assessment against the Company could potentially impact the Company's operations and financial results.

Changes to accounting rules, regulations and tax laws, or new interpretations of existing accounting standards or tax laws could negatively impact the Company's operating results and financial position.

The Company's operating results and financial position could be negatively impacted by changes to accounting rules and regulations or new interpretations of existing accounting standards. These changes may include, without limitation, changes to lease accounting standards. The Company's effective income tax rate could be impacted by changes in accounting standards as well as changes in tax laws or the interpretations of these tax laws by courts and taxing authorities which could negatively impact the Company's financial results.

The success of the Company is dependent, in part, on managing costs of labor, merchandise and other expenses that are subject to factors beyond the Company's control.

The Company's success depends, in part, on its ability to manage operating costs and to look for opportunities to reduce costs. The Company's ability to meet its labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation, labor organizing activities and changing demographics. The Company's ability to find qualified vendors and obtain access to products in a timely and efficient manner can be adversely affected by political instability, the financial instability of suppliers, suppliers' noncompliance with applicable laws, transportation costs and other factors beyond the Company's control.

The success of the Company is dependent, in part, on the ability of its employees in all areas of the organization to execute its business plan and, ultimately, to satisfy its customers.

The Company's ability to attract and retain qualified employees in all areas of the organization may be affected by a number of factors, including geographic relocation of employees, operations or facilities and the highly competitive markets in which the Company operates, including the markets for the types of skilled individuals needed to support the Company's continued success domestically, interactively and, over the longer term, internationally.

The success of the Company is dependent, in part, on its ability to open new stores, develop its omnichannel capabilities and operate profitably.

The Company's success depends, in part, on its ability to open new stores, develop its omnichannel capabilities and operate profitably. The Company's ability to open additional stores successfully will depend on a number of factors, including its identification and availability of suitable store locations; its success in negotiating leases on acceptable terms; its hiring and training of skilled store operating personnel, especially management; and its timely development of new stores, including the availability of construction materials and labor and the absence of significant construction and other delays in store openings based on weather or other events. The Company's ability to develop its omnichannel capabilities will depend on a number of factors, including its assessment and implementation of changing technologies. This increases the cost of doing business and the risk that the Company's business practices could result in liabilities that may adversely affect its performance, despite the exercise of reasonable care.

Disruptions in the financial markets could have an adverse effect on the Company's ability to access its cash and cash equivalents.

The Company may have amounts of cash and cash equivalents at financial institutions that are in excess of federally insured limits. While the Company closely manages its cash and cash equivalents balances to minimize risk, if there were disruptions in the financial markets, the Company can not be assured that it will not experience losses on its deposits.

The Company has acquired several businesses and continues to evaluate potential business initiatives, including acquisitions, any of which could adversely impact the Company's performance.

The Company believes it carefully evaluates and plans for the integration of newly acquired businesses, as well as carefully prepares for and executes on other business combinations and strategic initiatives that are part of the success of its business. However, such activities involve certain inherent risks, including the failure to retain key personnel from an acquired business; undisclosed or subsequently arising liabilities; challenges in the successful integration of operations, aligning standards, policies and systems; and the potential diversion of management resources from existing operations to respond to unforeseen issues arising in the context of the integration of a new business or initiative.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

ITEM 2 – PROPERTIES

Most of the Company’s stores are located in suburban areas of medium and large-sized cities. These stores are situated in strip and power strip shopping centers, as well as in major off-price and conventional malls, and in free standing buildings.

The Company’s 1,496 stores are located in all 50 states, the District of Columbia, Puerto Rico and Canada and range in size from approximately 5,000 to 100,000 square feet, but are predominantly between 18,000 and 50,000 square feet. Approximately 85% to 90% of store space is used for selling areas.

The table below sets forth the locations of the Company’s stores as of March 1, 2014:

Alabama	21	New Mexico	9
Alaska	2	New York	96
Arizona	43	North Carolina	45
Arkansas	7	North Dakota	2
California	187	Ohio	51
Colorado	34	Oklahoma	8
Connecticut	24	Oregon	17
Delaware	4	Pennsylvania	43
Florida	98	Rhode Island	5
Georgia	36	South Carolina	24
Hawaii	2	South Dakota	3
Idaho	9	Tennessee	27
Illinois	57	Texas	112
Indiana	24	Utah	15
Iowa	10	Vermont	3
Kansas	11	Virginia	44
Kentucky	11	Washington	36
Louisiana	19	West Virginia	3
Maine	8	Wisconsin	16
Maryland	22	Wyoming	2
Massachusetts	43	District of Columbia	3
Michigan	44	Puerto Rico	3
Minnesota	14	Alberta, Canada	9
Mississippi	7	British Columbia, Canada	7
Missouri	24	Manitoba, Canada	1
Montana	8	New Brunswick, Canada	2
Nebraska	6	Newfoundland, Canada	1
Nevada	13	Novia Scotia, Canada	1
New Hampshire	14	Ontario, Canada	18
New Jersey	87	Prince Edward Island, Canada	1
		Total	1,496

The Company leases substantially all of its existing stores. The leases provide for original lease terms that generally range from 10 to 15 years and most leases provide for renewal options, often at increased rents. The Company evaluates leases on an ongoing basis which may lead to renegotiated lease terms, including rents during renewal options, or the possible relocation of stores. Certain leases provide for scheduled rent increases (which, in the case of fixed increases, the Company accounts for on a straight-line basis over the committed lease term, beginning when the Company obtains possession of the premises) and/or for contingent rent (based upon store sales exceeding stipulated amounts).

The Company has distribution facilities, which ship merchandise to stores or customers, totaling approximately 5.8 million square feet consisting of three owned and 11 leased facilities.

As of March 1, 2014, the Company occupied approximately 508,000 square feet of office space at seven locations for procurement and corporate office functions. The corporate headquarters within two owned facilities in Union, New Jersey includes approximately 306,000 square feet with the remaining approximately 202,000 square feet within owned and leased facilities in California, Florida, Massachusetts, New Jersey, New York and North Carolina. In addition, the Company has seven locations, totaling approximately 14,000 square feet, which are utilized primarily for institutional sales related functions.

ITEM 3 – 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 4 – MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5 – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth the high and low reported closing prices of the Company's common stock on the NASDAQ National Market System for the periods indicated.

	High	Low
Fiscal 2013:		
1st Quarter	$70.07	$56.75
2nd Quarter	78.18	66.98
3rd Quarter	78.58	71.78
4th Quarter	80.48	62.68

	High	Low
Fiscal 2012:		
1st Quarter	$72.47	$59.74
2nd Quarter	74.72	59.34
3rd Quarter	71.60	56.40
4th Quarter	60.39	54.91

The common stock is quoted through the NASDAQ National Market System under the symbol BBBY. On March 29, 2014, there were approximately 5,600 shareholders of record of the common stock (without including individual participants in nominee security position listings). On March 29, 2014, the last reported sale price of the common stock was $68.43.

The Company has not paid cash dividends on its common stock since its 1992 initial public offering and does not currently plan to pay dividends on its common stock. The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and requirements, business conditions and other factors. See Item 8 - Financial Statements and Supplementary Data.

Since 2004 through the end of fiscal 2013, the Company has repurchased approximately $6.3 billion of its common stock through share repurchase programs. The Company's purchases of its common stock during the fourth 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)
December 1, 2013 - December 28, 2013	1,717,400	$ 77.61	1,717,400	$ 1,532,716,191
December 29, 2013 - January 25, 2014	2,594,500	$ 72.77	2,594,500	$ 1,343,914,027
January 26, 2014 - March 1, 2014	3,237,100	$ 64.75	3,237,100	$ 1,134,319,018
Total	7,549,000	$ 70.43	7,549,000	$ 1,134,319,018

(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.

Stock Price Performance Graph

The graph shown below compares the performance of the Company's common stock with that of the S&P 500 Index, the S&P Specialty Retail Index and the S&P Retail Composite Index over the same period (assuming the investment of $100 in the Company's common stock and each of the three Indexes on February 28, 2009, and the reinvestment of dividends, if any).

ITEM 6 – SELECTED FINANCIAL DATA

Consolidated Selected Financial Data (in thousands, except per share and selected operating data)	Fiscal Year Ended (1) March 1, 2014	March 2, 2013 (2)	February 25, 2012	February 26, 2011	February 27, 2010
Statement of Earnings Data:					
Net sales	$11,503,963	$10,914,585	$9,499,890	$8,758,503	$7,828,793
Gross profit	4,565,582	4,388,755	3,930,933	3,622,929	3,208,119
Operating profit	1,614,587	1,638,218	1,568,369	1,288,458	980,687
Net earnings	1,022,290	1,037,788	989,537	791,333	600,033
Net earnings per share - Diluted	$4.79	$4.56	$4.06	$3.07	$2.30
Selected Operating Data:					
Number of stores open (at period end)	1,496	1,471	1,173	1,139	1,100
Total square feet of store space (at period end)	42,619,000	42,030,000	36,125,000	35,055,000	33,740,000
Percentage increase in comparable sales	2.4 %	2.7 %	5.9 %	7.8 %	4.4 %
Comparable sales (in 000's) (3)	$10,660,573	$9,819,904	$9,157,183	$8,339,112	$7,409,203
Number of comparable stores	1,412	1,122	1,076	1,013	942
Balance Sheet Data (at period end):					
Working capital	$1,974,651	$2,232,275	$2,803,809	$2,751,398	$2,413,791
Total assets	6,356,033	6,279,952	5,724,546	5,646,193	5,152,130
Long-term sale/leaseback and capital lease obligations (4)	108,046	108,364	-	-	-
Long-term debt	-	-	-	-	-
Shareholders' equity (5) (6)	$3,941,287	$4,079,730	$3,922,528	$3,931,659	$3,652,904

(1) Each fiscal year represents 52 weeks, except for fiscal 2012 (ended March 2, 2013) which represents 53 weeks.
(2) The Company acquired Linen Holdings, LLC. on June 1, 2012 and Cost Plus, Inc. on June 29, 2012.

(3) Comparable sales include sales for stores and websites which have been operating for twelve full months following the opening period (typically four to six weeks).
(4) As a result of the Cost Plus, Inc. acquisition, the Company assumed two sale/leaseback and various capital lease obligations.
(5) The Company has not declared any cash dividends in any of the fiscal years noted above.
(6) In fiscal 2013, 2012, 2011, 2010 and 2009, the Company repurchased approximately $1.284 billion, $1.001 billion, $1.218 billion, $688 million and $95 million of its common stock, respectively.

ITEM 7 – 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 and Cost Plus (collectively, "Cost Plus World Market"). Customers can purchase products from the Company either in store, online or through a mobile device. The Company has the developing ability to fulfill customer purchases by in store customer pick up or by direct shipment to the customer from the Company's distribution facilities, stores or vendors. 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, food service, healthcare and other industries. (See "Acquisitions," Note 2 in the consolidated financial statements for the acquisitions of Cost Plus 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.

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, channels and countries 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 omnichannel retail environment and the 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 Cost Plus 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 Cost Plus 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:

- Net sales in fiscal 2013 (fifty-two weeks) increased approximately 5.4% to $11.504 billion; net sales in fiscal 2012 (fifty-three weeks) increased approximately 14.9% to $10.915 billion over net sales of $9.500 billion in fiscal 2011 (fifty-two weeks).

18

- Comparable sales for fiscal 2013 increased by approximately 2.4% as compared with an increase of approximately 2.7% in fiscal 2012 and an increase of approximately 5.9% in fiscal 2011. Comparable sales percentages are calculated based on an equivalent number of weeks for each annual period.

Comparable sales include sales for stores and websites which have been operating for twelve full months following the opening period (typically four to six weeks). 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. 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. Cost Plus World Market was excluded from the comparable sales calculations through the end of the fiscal first half of 2013, and is included beginning with the fiscal third quarter of 2013.

- Gross profit for fiscal 2013 was $4.566 billion or 39.7% of net sales compared with $4.389 billion or 40.2% of net sales for fiscal 2012 and $3.931 billion or 41.4% of net sales for fiscal 2011.

- Selling, general and administrative expenses ("SG&A") for fiscal 2013 were $2.951 billion or 25.7% of net sales compared with $2.751 billion or 25.2% of net sales for fiscal 2012 and $2.363 billion or 24.9% of net sales for fiscal 2011.

- The effective tax rate was 36.6%, 36.5% and 37.0% for fiscal years 2013, 2012 and 2011, respectively. The tax rate included discrete tax items resulting in net benefits of approximately $20.0 million, $26.7 million and $20.7 million, respectively, for fiscal 2013, 2012 and 2011.

- For the fiscal year ended March 1, 2014 (fifty-two weeks), net earnings per diluted share were $4.79 ($1.022 billion), an increase of approximately 5%, as compared with net earnings per diluted share of $4.56 ($1.038 billion) for fiscal 2012 (fifty-three weeks), which was an increase of approximately 12% from net earnings per diluted share of $4.06 ($989.5 million) for fiscal 2011 (fifty-two weeks). For the fiscal year ended March 1, 2014, the increase in net earnings per diluted share is the result of the items described above and the impact of the Company's repurchases of its common stock, partially offset by a reduction of approximately $0.06 to $0.07 per diluted share as a result of the disruptive weather in the fiscal fourth quarter. For the fiscal year ended March 2, 2013, the increase in net earnings per diluted share is the result of the items described above, which includes an estimated $0.05 benefit related to the fifty-third week in fiscal year 2012 and the impact of the Company's repurchases of its common stock, partially offset by the negative impact of Hurricane Sandy in the fiscal third quarter.

During fiscal 2013, the Company continued the integration of the two fiscal 2012 acquisitions as well as advanced initiatives including: enhanced the omnichannel experience for its customers by replatforming and adding improved functionality to its Baby and BBB websites, replatforming its mobile sites and applications and growing and developing its information technology, analytics, marketing and e-commerce groups; completed the construction of a new information technology data center and are engaged in equipping the facility which will enhance the Company's disaster recovery capabilities and support its overall information technology systems; installed energy efficient lighting, and heating and cooling systems in the Company's stores; and continued the ongoing deployment of new and enhanced systems and equipment to allow its stores to take advantage of new technologies and processes.

Capital expenditures for fiscal 2013, 2012 and 2011 were $317.2 million, $314.7 million and $243.4 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 information technology enhancements, including omnichannel capabilities, new stores, existing store improvements, and other projects whose impact is considered important to its future.

During fiscal 2013, 2012 and 2011, the Company repurchased 18.3 million, 16.1 million and 21.5 million shares, respectively, of its common stock at a total cost of approximately $1.284 billion, $1.001 billion and $1.218 billion, respectively. Since the end of fiscal 2011, the Company has returned approximately 89% of its cash flows from operations to its shareholders through share repurchase programs.

During fiscal 2013, the Company opened a total of 33 new stores. In addition, the Company continued to optimize its operations in a number of trade areas through renovating and repositioning stores in various markets, which also included the closing of eight stores during fiscal 2013. The Company plans to continue to expand its operations and invest in its infrastructure to reach its long term objectives. In fiscal 2014, the Company expects to open approximately 30 new stores company-wide and will continue to renovate stores or reposition stores within various markets, when appropriate. Additionally, during fiscal 2014, the Company will continue to enhance its omnichannel capabilities, through, among other things, continuing to add new functionality and assortment to its selling websites, mobile sites and applications and opening an additional distribution facility for both direct to customer and store fulfillment.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated (i) selected statement of earnings data of the Company expressed as a percentage of net sales and (ii) the percentage change in dollar amounts from the prior year in selected statement of earnings data:

	Fiscal Year Ended				
	Percentage of Net Sales			Percentage Change from Prior Year	
	March 1, 2014	March 2, 2013	February 25, 2012	March 1, 2014	March 2, 2013
Net sales	100.0 %	100.0 %	100.0 %	5.4 %	14.9 %
Cost of sales	60.3	59.8	58.6	6.3	17.2
Gross profit	39.7	40.2	41.4	4.0	11.6
Selling, general and administrative expenses	25.7	25.2	24.9	7.3	16.4
Operating profit	14.0	15.0	16.5	(1.4)	4.5
Earnings before provision for income taxes	14.0	15.0	16.5	(1.3)	4.1
Net earnings	8.9	9.5	10.4	(1.5)	4.9

Net Sales

Since fiscal 2012 was a fifty-three week year, fiscal 2013 started a week later than fiscal 2012. The comparable 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 sales calendar.

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 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 in fiscal 2013 (fifty-two weeks) increased $589.4 million to $11.504 billion, representing an increase of 5.4% over $10.915 billion of net sales in fiscal 2012 (fifty-three weeks), which increased $1.415 billion or 14.9% over the $9.500 billion of net sales in fiscal 2011 (fifty-two weeks). For fiscal 2013, approximately 62% of the increase in net sales was attributable to the inclusion of Cost Plus World Market prior to its inclusion in comparable sales and Linen Holdings prior to the anniversary of its acquisition, approximately 42% of the increase was attributable to an increase in comparable sales and 26% of the increase was primarily attributable to an increase in the Company's new store sales and the post-acquisition period for Linen Holdings, partially offset by a decrease of approximately 30% as a result of the non-comparable additional week in fiscal 2012.

For fiscal 2013, comparable sales, which includes 1,412 stores, represented $10.661 billion of net sales; for fiscal 2012, comparable sales, which includes, 1,122 stores, represented $9.820 billion of net sales; and for fiscal 2011, comparable sales, which includes 1,076 stores, represented $9.157 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 sales, which includes Cost Plus World Market beginning with the fiscal third quarter and excludes Linen Holdings, was approximately 2.4% for fiscal 2013, as compared with an increase of approximately 2.7% for fiscal 2012. The increase in comparable sales for fiscal 2013 was due to an increase in the average transaction amount and a slight increase in the number of transactions. The increase in comparable sales for fiscal 2012 was due to an increase in the average transaction amount partially offset by a decrease in the number of transactions. Comparable sales are calculated based on an equivalent number of weeks for each annual period.

Sales of domestics merchandise accounted for approximately 36%, 39% and 40% of net sales in fiscal 2013, 2012 and 2011, respectively, of which the Company estimates that bed linens accounted for approximately 12% of net sales in fiscal 2013, 2012 and 2011, respectively. The remaining net sales in fiscal 2013, 2012 and 2011 of 64%, 61% and 60%, respectively, represented sales of home furnishings. No other individual product category accounted for 10% or more of net sales during fiscal 2013, 2012 or 2011.

Gross Profit

Gross profit in fiscal 2013, 2012 and 2011 was $4.566 billion or 39.7% of net sales, $4.389 billion or 40.2% of net sales and $3.931 billion or 41.4% of net sales, respectively. The decreases in the gross profit margin as a percentage of net sales between fiscal 2013 and 2012 and between fiscal 2012 and 2011 were 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 was $2.951 billion or 25.7% of net sales in fiscal 2013, $2.751 billion or 25.2% of net sales in fiscal 2012 and $2.363 billion or 24.9% of net sales in fiscal 2011. The increase in SG&A between fiscal 2013 and 2012 as a percentage of net sales was primarily due to higher technology expenses and depreciation and a relative increase in payroll and payroll-related items (including salaries, workers' compensation and medical insurance). The inclusion of the financial results of the acquisitions for the periods prior to each of their one year anniversaries, which occurred in the first half of fiscal 2013, also contributed to the increase in SG&A as a percentage of net sales. The increase in SG&A between fiscal 2012 and 2011 as a percentage of net sales was primarily due to a relative increase in advertising expenses. As a percentage of net sales, the relative increase in advertising expenses was higher due to the inclusion of the financial results of the acquisitions completed in fiscal 2012. In addition, the fifty-third week has relatively higher SG&A than the year to date fifty-two weeks and increased SG&A by approximately 10 basis points.

Operating Profit

Operating profit for fiscal 2013 was $1.615 billion or 14.0% of net sales, $1.638 billion or 15.0% of net sales in fiscal 2012 and $1.568 billion or 16.5% of net sales in fiscal 2011. The changes in operating profit as a percentage of net sales between fiscal 2013 and 2012 and between fiscal 2012 and 2011 were the result of the changes in gross profit margin and SG&A as a percentage of net sales as described above.

Interest (Expense) Income

Interest expense was $1.1 million and $4.2 million in fiscal 2013 and fiscal 2012, respectively and interest income was $1.1 million in fiscal 2011. Interest expense for fiscal 2012 increased from fiscal 2011 primarily due to the inclusion of interest expense related to the sale/leaseback obligations on the distribution facilities acquired as part of the fiscal 2012 acquisitions.

Income Taxes

The effective tax rate was 36.6% for fiscal 2013, 36.5% for fiscal 2012 and 37.0% for fiscal 2011. For fiscal 2013 and fiscal 2012, the tax rate included a net benefit of approximately $20.0 million and $26.7 million, respectively, primarily due to the recognition of favorable discrete state tax items. For fiscal 2011, the tax rate included an approximate $20.7 million net benefit primarily due to the settlement of certain discrete tax items from on-going examinations, the recognition of favorable discrete state tax items and from changing the blended state tax rate of deferred income taxes.

The Company expects continued volatility in the effective tax rate from year to year because the Company is required each year 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.

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, the evolution of its omnichannel shopping environment and the continuous review of strategic acquisitions.

In the 22-year period from the beginning of fiscal 1992 to the end of fiscal 2013, the chain has grown from 34 to 1,496 stores plus its various websites, other interactive platforms and distribution facilities. Total store square footage grew from approximately 0.9 million square feet at the beginning of fiscal 1992 to approximately 42.6 million square feet at the end of fiscal 2013. During fiscal 2013, the Company opened a total of 33 new stores. In addition, the Company continued to optimize its operations in a number of trade areas through renovating and repositioning stores in various markets, which included the closing of eight stores. In fiscal 2013, consolidated store space, net of openings and closings for all concepts, increased by 0.6 million square feet. Additionally, the Company is a partner in a joint venture which opened one store during fiscal 2013 and as of March 1, 2014, operated a total of four retail stores in Mexico under the name Bed Bath & Beyond.

During fiscal 2012, the Company acquired Linen Holdings and Cost Plus World Market.

The Company plans to continue to expand its operations and invest in its infrastructure to reach its long term objectives. In fiscal 2014, the Company expects to open approximately 30 new stores company-wide and will continue to renovate stores or reposition stores within various markets, when appropriate. Additionally, the Company will continue to place health and beauty care offerings in selected stores as well as specialty food and beverage departments in selected BBB stores. The continued growth of the Company is dependent, in part, upon the Company's ability to execute its expansion program successfully. Additionally, during fiscal 2014, the Company plans to enhance its omnichannel capabilities by continuing to add new functionality and assortment to its selling websites, mobile sites and applications; furthering the development work necessary for a new and more robust point of sale system; continuing the deployment of systems and equipment to allow the Company's stores to take advantage of new technologies and processes; continuing to strengthen its information technology, analytics, marketing and e-commerce groups and opening an additional distribution facility for both direct to customer and store fulfillment.

LIQUIDITY AND CAPITAL RESOURCES

The Company has been able to finance its operations, including its expansion program, entirely through internally generated funds. For fiscal 2014, 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. Capital expenditures for fiscal 2014, principally for information technology enhancements, including omnichannel capabilities, new stores, existing store improvements, and other projects are planned to be approximately $350 million, subject to the timing and composition of the projects. In addition, the Company periodically reviews its alternatives with respect to optimizing its capital structure.

Fiscal 2013 compared to Fiscal 2012

Net cash provided by operating activities in fiscal 2013 was $1.383 billion, compared with $1.193 billion in fiscal 2012. Year over year, the Company experienced an increase in cash provided by the net components of working capital (primarily merchandise inventories, accounts payable and other current assets) and an increase in net earnings, as adjusted for non-cash expenses (primarily depreciation).

Retail inventory at cost per square foot was $59.68 as of March 1, 2014, as compared to $58.12 as of March 2, 2013.

Net cash used in investing activities in fiscal 2013 was $359.8 million, compared with $665.8 million in fiscal 2012. In fiscal 2013, net cash used in investing activities was primarily due to $317.2 million of capital expenditures and $39.1 million of purchases of investment securities, net of redemptions. In fiscal 2012, net cash used in investing activities was due to payments, net of cash acquired, of $643.1 million related to the Cost Plus World Market and Linen Holdings acquisitions, $314.7 million for capital expenditures and $40.0 million for the acquisition of trademarks, partially offset by redemptions of $332.0 million of investment securities, net of purchases.

Net cash used in financing activities for fiscal 2013 was $1.222 billion, compared with $965.4 million in fiscal 2012. The increase in net cash used was primarily due to an increase in common stock repurchases of $282.7 million, partially offset by a $25.5 million payment in the prior year for a credit facility assumed in connection with an acquisition.

Fiscal 2012 compared to Fiscal 2011

Net cash provided by operating activities in fiscal 2012 was $1.193 billion, compared with $1.225 billion in fiscal 2011. Year over year, the Company experienced an increase in cash used by the net components of working capital (primarily merchandise inventories, other current assets and accrued expenses and other current liabilities, partially offset by accounts payable and income taxes payable) and an increase in net earnings.

Retail inventory at cost per square foot was $58.12 as of March 2, 2013, as compared to $57.35 as of February 25, 2012.

Net cash used in investing activities in fiscal 2012 was $665.8 million, compared with $364.0 million in fiscal 2011. In fiscal 2012, net cash used in investing activities was due to payments, net of cash acquired, of $643.1 million related to the Cost Plus World Market and Linen Holdings acquisitions, $314.7 million for capital expenditures and $40.0 million for the acquisition of trademarks, partially offset by redemptions of $332.0 million of investment securities, net of purchases. In fiscal 2011, net cash used in investing activities was due to $243.4 million of capital expenditures and $120.6 million of purchases of investment securities, net of redemptions.

Net cash used in financing activities for fiscal 2012 was $965.4 million, compared with $1.042 billion in fiscal 2011. The decrease in net cash used was primarily due to a decrease in common stock repurchases of $216.7 million, partially offset by a $114.7 million decrease in cash proceeds from the exercise of stock options and a $25.5 million payment for a credit facility assumed in acquisition.

Auction Rate Securities

As of March 1, 2014, the Company held approximately $47.7 million of net investments in auction rate securities. Beginning in mid-February 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 March 1, 2014, these securities had a temporary valuation adjustment of approximately $3.3 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 fiscal 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.

Other Fiscal 2013 Information

At March 1, 2014, the Company maintained two uncommitted lines of credit of $100 million each, with expiration dates of September 2, 2014 and February 28, 2015, 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 fiscal 2013, the Company did not have any direct borrowings under the uncommitted lines of credit. As of March 1, 2014, there was approximately $4.5 million of outstanding letters of credit. Although no assurances can be provided, the Company intends to renew both uncommitted lines of credit before the respective expiration dates. In addition, as of March 1, 2014, the Company maintained unsecured standby letters of credit of $74.3 million, primarily for certain insurance programs.

24

Between December 2004 and December 2012, the Company's Board of Directors authorized, through share repurchase programs, the repurchase of $7.450 billion of the Company's common stock.

Since 2004 through the end of fiscal 2013, the Company has repurchased approximately $6.3 billion of its common stock through share repurchase programs. The Company has approximately $1.1 billion remaining of authorized share repurchases as of March 1, 2014. The execution of the Company's share repurchase program will consider current business and market conditions.

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 has contractual obligations consisting mainly of operating leases for stores, offices, distribution facilities and equipment, purchase obligations, long-term sale/leaseback and capital lease obligations and other long-term liabilities which the Company is obligated to pay as of March 1, 2014 as follows:

(in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating lease obligations (1)	$3,249,546	$563,973	$974,162	$713,392	$998,019
Purchase obligations (2)	1,118,369	1,118,369	-	-	-
Long-term sale/leaseback and capital lease obligations (3)	342,386	9,827	19,787	20,014	292,758
Other long-term liabilities (4)	466,741	-	-	-	-
Total Contractual Obligations	$5,177,042	$1,692,169	$993,949	$733,406	$1,290,777

(1) The amounts presented represent the future minimum lease payments under non-cancelable operating leases. In addition to minimum rent, certain of the Company's leases require the payment of additional costs for insurance, maintenance and other costs. These additional amounts are not included in the table of contractual commitments as the timing and/or amounts of such payments are not known. As of March 1, 2014, the Company has leased sites for 21 locations planned for opening in fiscal 2014 or 2015, for which aggregate minimum rental payments over the term of the leases are approximately $76.5 million and are included in the table above.

(2) Purchase obligations primarily consist of purchase orders for merchandise.

(3) Long-term sale/leaseback and capital lease obligations represent future minimum lease payments under the sale/leaseback agreements and capital lease agreements.

(4) Other long-term liabilities are primarily comprised of income taxes payable, deferred rent, workers' compensation and general liability reserves and various other accruals and are recorded as Deferred Rent and Other Liabilities and Income Taxes Payable in the Consolidated Balance Sheet as of March 1, 2014. The amounts associated with these other long-term liabilities have been reflected only in the Total Column in the table above as the timing and/or amount of any cash payment is uncertain.

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.

INFLATION

The Company does not believe that its operating results have been materially affected by inflation during the past year. There can be no assurance, however, that the Company's operating results will not be affected by inflation in the future.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires the Company to establish accounting policies and to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on other assumptions that it believes to be relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. In particular, judgment is used in areas such as inventory valuation, impairment of long-lived assets, goodwill and other indefinite lived intangible assets, accruals for self insurance, litigation, store opening, expansion, relocation and closing costs, stock-based compensation and income and certain other taxes. Actual results could differ from these estimates.

Inventory Valuation: Merchandise inventories are stated at the lower of cost or market. Inventory costs are primarily calculated using the weighted average retail inventory method.

Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail values of inventories. The cost associated with determining the cost-to-retail ratio includes: merchandise purchases, net of returns to vendors, discounts and volume and incentive rebates; inbound freight expenses; duty, insurance and commissions.

At any one time, inventories include items that have been written down to the Company's best estimate of their realizable value. Judgment is required in estimating realizable value and factors considered are the age of merchandise and anticipated demand. Actual realizable value could differ materially from this estimate based upon future customer demand or economic conditions.

The Company estimates its reserve for shrinkage throughout the year based on historical shrinkage and any current trends, if applicable. Actual shrinkage is recorded at year end based upon the results of the Company's physical inventory counts for locations at which counts were conducted. For locations where physical inventory counts were not conducted in the fiscal year, an estimated shrink reserve is recorded based on historical shrinkage and any current trends, if applicable. Historically, the Company's shrinkage has not been volatile.

The Company accrues for merchandise in transit once it takes legal ownership and title to the merchandise; as such, an estimate for merchandise in transit is included in the Company's merchandise inventories.

Impairment of Long-Lived Assets: The Company reviews long-lived assets for impairment when events or changes in circumstances indicate the carrying value of these assets may exceed their current fair values. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the assets. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Company has not historically recorded any material impairment to its long-lived assets. In the future, if events or market conditions affect the estimated fair value to the extent that a long-lived asset is impaired, the Company will adjust the carrying value of these long-lived assets in the period in which the impairment occurs.

Goodwill and Other Indefinite Lived Intangible Assets: The Company reviews goodwill and other intangibles that have indefinite lives for impairment annually or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Impairment testing is based upon the best information available including estimates of fair value which incorporate assumptions marketplace participants would use in making their estimates of fair value. The Company has not historically recorded an impairment to its goodwill and other indefinite lived intangible assets. As of March 1, 2014, for goodwill related to the North American Retail operating segment and the Institutional Sales operating segment and certain other indefinite lived intangible assets, the Company assessed qualitative factors in order to determine whether any events and circumstances existed which indicated that it was more likely than not that the fair value of these indefinite lived intangible assets did not exceed its carrying value and concluded no such events or circumstances existed which would require an impairment test being performed. In the future, if events or market conditions affect the estimated fair value to the extent that an asset is impaired, the Company will adjust the carrying value of these assets in the period in which the impairment occurs.

Self Insurance: The Company utilizes a combination of insurance and self insurance for a number of risks including workers' compensation, general liability, automobile liability and employee related health care benefits (a portion of which is paid by its employees). Liabilities associated with the risks that the Company retains are estimated by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Although the Company's claims experience has not displayed substantial volatility in the past, actual experience could materially vary from its historical experience in the future. Factors that affect these estimates include but are not limited to: inflation, the number and severity of claims and regulatory changes. In the future, if the Company concludes an adjustment to self insurance accruals is required, the liability will be adjusted accordingly.

Litigation: The Company records an estimated liability related to its various claims and legal actions arising in the ordinary course of business when and to the extent that it concludes a liability is probable and the amount of the loss can be reasonably estimated. Such estimated loss is based on available information and advice from outside counsel, where appropriate. As additional information becomes available, the Company reassesses the potential liability related to claims and legal actions and revises its estimated liabilities, as appropriate. The Company expects the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. The Company also cannot predict the nature and validity of claims which could be asserted in the future, and future claims could have a material impact on its earnings.

Store Opening, Expansion, Relocation and Closing Costs: Store opening, expansion, relocation and closing costs, including markdowns, asset residual values and projected occupancy costs, are charged to earnings as incurred.

Stock-Based Compensation: The Company uses a Black-Scholes option-pricing model to determine the fair value of its stock options. The Black-Scholes model includes various assumptions, including the expected life of stock options, the expected risk free interest rate and the expected volatility. These assumptions reflect the Company's best estimates, but they involve inherent uncertainties based on market conditions generally outside the control of the Company. As a result, if other assumptions had been used, total stock-based compensation cost could have been materially impacted. Furthermore, if the Company uses different assumptions for future grants, stock-based compensation cost could be materially impacted in future periods.

The Company determines its assumptions for the Black-Scholes option-pricing model in accordance with the accounting guidance related to stock compensation.

- The expected life of stock options is estimated based on historical experience.
- The expected risk free interest rate is based on the U.S. Treasury constant maturity interest rate whose term is consistent with the expected life of the stock options.
- 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.

The Company is required to record stock-based compensation expense net of estimated forfeitures. The Company's forfeiture rate assumption used in determining its stock-based compensation expense is estimated based on historical data. The actual forfeiture rate could differ from these estimates.

Taxes: The Company accounts for its income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company intends to reinvest the unremitted earnings of its Canadian subsidiary. Accordingly, no provision has been made for U.S. or additional non-U.S. taxes with respect to these earnings. In the event of repatriation to the U.S., in most cases such earnings would be subject to U.S. income taxes.

The Company recognizes the tax benefit from an uncertain tax position only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the taxing authorities.

The Company expects continued volatility in the effective tax rate from year to year because the Company is required each year 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.

The Company also accrues for certain other taxes as required by their operations.

Judgment is required in determining the provision for income and other taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's various tax returns are subject to audit by various tax authorities. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates.

FORWARD-LOOKING STATEMENTS

This Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. 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 and through other channels of distribution and emerging technologies; 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, including that arising from 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.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 1, 2014, the Company's investments include cash and cash equivalents of approximately $366.5 million, short term investment securities of approximately $489.3 million and long term investment securities of approximately $87.4 million at weighted average interest rates of 0.01%, 0.05% and 0.07%, respectively.

As of March 1, 2014, the Company held approximately $47.7 million of net investments in auction rate securities. Beginning in mid-February 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 March 1, 2014, these securities had a temporary valuation adjustment of approximately $3.3 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 fiscal 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.

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following are included herein:

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

	March 1, 2014	March 2, 2013
Assets		
Current assets:		
Cash and cash equivalents	$366,516	$564,971
Short term investment securities	489,331	449,933
Merchandise inventories	2,578,956	2,466,214
Other current assets	379,807	386,367
Total current assets	3,814,610	3,867,485
Long term investment securities	87,393	77,325
Property and equipment, net	1,579,804	1,466,667
Goodwill	486,279	483,518
Other assets	387,947	384,957
Total assets	$6,356,033	$6,279,952
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$1,104,668	$913,365
Accrued expenses and other current liabilities	385,954	393,094
Merchandise credit and gift card liabilities	284,216	251,481
Current income taxes payable	65,121	77,270
Total current liabilities	1,839,959	1,635,210
Deferred rent and other liabilities	486,996	484,868
Income taxes payable	87,791	80,144
Total liabilities	2,414,746	2,200,222
Commitments and contingencies		
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 334,941 and 332,696 shares, respectively; outstanding 205,405 and 221,489 shares, respectively	3,350	3,327
Additional paid-in capital	1,673,217	1,540,451
Retained earnings	8,595,902	7,573,612
Treasury stock, at cost	(6,317,335)	(5,033,340)
Accumulated other comprehensive loss	(13,847)	(4,320)
Total shareholders' equity	3,941,287	4,079,730

Total liabilities and shareholders' equity	$6,356,033	$6,279,952

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings
Bed Bath & Beyond Inc. and Subsidiaries

(in thousands, except per share data)	FISCAL YEAR ENDED March 1, 2014	March 2, 2013	February 25, 2012
Net sales	$11,503,963	$10,914,585	$9,499,890
Cost of sales	6,938,381	6,525,830	5,568,957
Gross profit	4,565,582	4,388,755	3,930,933
Selling, general and administrative expenses	2,950,995	2,750,537	2,362,564
Operating profit	1,614,587	1,638,218	1,568,369
Interest (expense) income, net	(1,140)	(4,159)	1,119
Earnings before provision for income taxes	1,613,447	1,634,059	1,569,488
Provision for income taxes	591,157	596,271	579,951
Net earnings	$1,022,290	$1,037,788	$989,537
Net earnings per share - Basic	$4.85	$4.62	$4.12
Net earnings per share - Diluted	$4.79	$4.56	$4.06
Weighted average shares outstanding - Basic	210,710	224,623	240,016
Weighted average shares outstanding - Diluted	213,363	227,723	243,890

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
Bed Bath & Beyond Inc. and Subsidiaries

	FISCAL YEAR ENDED		
(in thousands)	March 1, 2014	March 2, 2013	February 25, 2012
Net earnings	$1,022,290	$1,037,788	$989,537
Other comprehensive (loss) income:			
Change in temporary valuation adjustment of auction rate securities, net of taxes	(792)	1,017	(297)
Pension adjustment, net of taxes	3,249	146	(4,596)
Currency translation adjustment	(11,984)	(3,604)	(2,086)
Other comprehensive loss	(9,527)	(2,441)	(6,979)
Comprehensive income	$1,012,763	$1,035,347	$982,558

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity
Bed Bath & Beyond Inc. and Subsidiaries

	Common Stock		Additional Paid-	Retained	Treasury Stock		Accumulated Other Comprehensive Income	
(in thousands)	Shares	Amount	in Capital	Earnings	Shares	Amount	(Loss)	Total
Balance at February 26, 2011	325,222	$ 3,253	$ 1,191,123	$ 5,546,287	(73,556)	$ (2,814,104)	$ 5,100	$ 3,931,659
Net earnings				989,537				989,537
Other comprehensive loss							(6,979)	(6,979)
Shares sold under employee stock option plans, net of taxes	4,645	46	179,546					179,592
Issuance of restricted shares, net	706	7	(7)					-
Stock-based compensation expense, net			46,501					46,501
Director fees paid in stock	3		174					174
Repurchase of common stock, including fees					(21,505)	(1,217,956)		(1,217,956)
Balance at February 25, 2012	330,576	3,306	1,417,337	6,535,824	(95,061)	(4,032,060)	(1,879)	3,922,528
Net earnings				1,037,788				1,037,788
Other comprehensive loss							(2,441)	(2,441)
Shares sold under employee stock option plans, net of	1,489	15	74,323					74,338

taxes								
Issuance of restricted shares, net	626	6	(6)					-
Stock-based compensation expense, net			48,520					48,520
Director fees paid in stock	5		277					277
Repurchase of common stock, including fees					(16,146)	(1,001,280)		(1,001,280)
Balance at March 2, 2013	332,696	3,327	1,540,451	7,573,612	(111,207)	(5,033,340)	(4,320)	4,079,730
Net earnings				1,022,290				1,022,290
Other comprehensive loss							(9,527)	(9,527)
Shares sold under employee stock option plans, net of taxes	1,375	14	74,766					74,780
Issuance of restricted shares, net	868	9	(9)					-
Stock-based compensation expense, net			57,842					57,842
Director fees paid in stock	2		167					167
Repurchase of common stock, including fees					(18,329)	(1,283,995)		(1,283,995)
Balance at March 1, 2014	334,941	$ 3,350	$ 1,673,217	$ 8,595,902	(129,536)	$ (6,317,335)	$ (13,847)	$ 3,941,287

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
Bed Bath & Beyond Inc. and Subsidiaries

	FISCAL YEAR ENDED		
(in thousands)	March 1, 2014	March 2, 2013	February 25, 2012
Cash Flows from Operating Activities:			
Net earnings	$1,022,290	$ 1,037,788	$ 989,537
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	218,809	194,728	183,873
Stock-based compensation	56,244	47,163	45,223
Tax benefit from stock-based compensation	12,846	13,217	63
Deferred income taxes	11,841	17,600	30,238
Other	(1,784)	702	(1,622)
(Increase) decrease in assets, net of effect of acquisitions:			
Merchandise inventories	(112,742)	(198,407)	(102,983)
Trading investment securities	(11,382)	(6,206)	(4,538)
Other current assets	(4,923)	(43,585)	24,948
Other assets	(3,829)	(9,685)	900
Increase (decrease) in liabilities, net of effect of acquisitions:			
Accounts payable	178,132	105,251	31,582
Accrued expenses and other current liabilities	(13,532)	(26,412)	19,822
Merchandise credit and gift card liabilities	32,735	36,888	16,585
Income taxes payable	(4,502)	6,598	(37,392)
Deferred rent and other liabilities	2,983	17,350	29,048
Net cash provided by operating activities	1,383,186	1,192,990	1,225,284
Cash Flows from Investing Activities:			
Purchase of held-to-maturity investment securities	(1,156,634)	(730,976)	(1,605,851)
Redemption of held-to-maturity investment securities	1,117,500	1,031,249	1,456,250
Redemption of available-for-sale investment securities	-	31,715	28,975
Capital expenditures	(317,180)	(314,682)	(243,374)
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	(359,750)	(665,792)	(364,000)
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options	54,815	56,377	171,088
Excess tax benefit from stock-based compensation	7,289	5,021	5,163
Payment for credit facility assumed in acquisition	-	(25,511)	-
Repurchase of common stock, including fees	(1,283,995)	(1,001,280)	(1,217,956)
Net cash used in financing activities	(1,221,891)	(965,393)	(1,041,705)
Net decrease in cash and cash equivalents	(198,455)	(438,195)	(180,421)
Cash and cash equivalents:			

Beginning of period	564,971	1,003,166	1,183,587
End of period	$366,516	$ 564,971	$ 1,003,166

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements
Bed Bath & Beyond Inc. and Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

A. Nature of Operations

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 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 or through a mobile device. The Company has the developing ability to fulfill customer purchases by in store customer pick up or by direct shipment to the customer from the Company's distribution facilities, stores or vendors. 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, food service, healthcare and other industries. Additionally, the Company is a partner in a joint venture which operates four retail stores in Mexico under the name Bed Bath & Beyond. 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. As the Company operates in the retail industry, its results of operations are affected by general economic conditions and consumer spending habits.

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.

B. Fiscal Year

The Company's fiscal year is comprised of the 52 or 53 week period ending on the Saturday nearest February 28. Accordingly, fiscal 2013 and fiscal 2011 represented 52 weeks and ended on March 1, 2014 and February 25, 2012, respectively. Fiscal 2012 represented 53 weeks and ended on March 2, 2013.

C. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company accounts for its investment in the joint venture under the equity method.

Certain reclassifications have been made to the fiscal 2012 consolidated financial statements to conform to the fiscal 2013 presentation.

All significant intercompany balances and transactions have been eliminated in consolidation.

D. Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires the Company to establish accounting policies and to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on other assumptions that it believes to be relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. In particular, judgment is used in areas such as inventory valuation, impairment of long-lived assets, impairment of auction rate securities, goodwill and other indefinite lived intangible assets, accruals for self insurance, litigation, store opening, expansion, relocation and closing costs, the provision for sales returns, vendor allowances, stock-based compensation and income and certain other taxes. Actual results could differ from these estimates.

E. Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. Included in cash and cash equivalents are credit and debit card receivables from banks, which typically settle within 5 business days, of $87.4 million and $87.8 million as of March 1, 2014 and March 2, 2013, respectively.

F. Investment Securities

Investment securities consist primarily of U.S. Treasury Bills with remaining maturities of less than one year and auction rate securities, which are securities with interest rates that reset periodically through an auction process. The U.S. Treasury Bills are classified as short term held-to-maturity securities and are stated at their amortized cost which approximates fair value. Auction rate securities are classified as available-for-sale and are stated at fair value, which had historically been consistent with cost or par value due to interest rates which reset periodically, typically every 7, 28 or 35 days. As a result, there generally were no cumulative gross unrealized holding gains or losses relating to these auction rate securities. However, beginning in mid-February 2008 due to market conditions, 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, and affect their estimated fair values at March 1, 2014 and March 2, 2013, but do not affect the underlying collateral of the securities. (See "Fair Value Measurements," Note 5 and "Investment Securities," Note 6). All income from these investments is recorded as interest income.

Those investment securities which the Company has the ability and intent to hold until maturity are classified as held-to-maturity investments and are stated at amortized cost. Those investment securities which are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are stated at fair market value.

Premiums are amortized and discounts are accreted over the life of the security as adjustments to interest income using the effective interest method. Dividend and interest income are recognized when earned.

G. Inventory Valuation

Merchandise inventories are stated at the lower of cost or market. Inventory costs are primarily calculated using the weighted average retail inventory method.

Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail values of inventories. The cost associated with determining the cost-to-retail ratio includes: merchandise purchases, net of returns to vendors, discounts and volume and incentive rebates; inbound freight expenses; duty, insurance and commissions.

At any one time, inventories include items that have been written down to the Company's best estimate of their realizable value. Judgment is required in estimating realizable value and factors considered are the age of merchandise and anticipated demand. Actual realizable value could differ materially from this estimate based upon future customer demand or economic conditions.

The Company estimates its reserve for shrinkage throughout the year based on historical shrinkage and any current trends, if applicable. Actual shrinkage is recorded at year end based upon the results of the Company's physical inventory counts for locations at which counts were conducted. For locations where physical inventory counts were not conducted in the fiscal year, an estimated shrink reserve is recorded based on historical shrinkage and any current trends, if applicable. Historically, the Company's shrinkage has not been volatile.

37

The Company accrues for merchandise in transit once it takes legal ownership and title to the merchandise; as such, an estimate for merchandise in transit is included in the Company's merchandise inventories.

H. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets (forty years for buildings; five to twenty years for furniture, fixtures and equipment; and three to seven years for computer equipment and software). Leasehold improvements are amortized using the straight-line method over the lesser of their estimated useful life or the life of the lease. Depreciation expense is primarily included within selling, general and administrative expenses.

The cost of maintenance and repairs is charged to earnings as incurred; significant renewals and betterments are capitalized. Maintenance and repairs amounted to $111.9 million, $106.1 million and $85.8 million for fiscal 2013, 2012 and 2011, respectively.

I. Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment when events or changes in circumstances indicate the carrying value of these assets may exceed their current fair values. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the assets. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Company has not historically recorded any material impairment to its long-lived assets. In the future, if events or market conditions affect the estimated fair value to the extent that a long-lived asset is impaired, the Company will adjust the carrying value of these long-lived assets in the period in which the impairment occurs.

J. Goodwill and Other Indefinite Lived Intangible Assets

The Company reviews goodwill and other intangibles that have indefinite lives for impairment annually or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Impairment testing is based upon the best information available, including estimates of fair value which incorporate assumptions marketplace participants would use in making their estimates of fair value. The Company has not historically recorded an impairment to its goodwill and other indefinite lived intangible assets. As of March 1, 2014, for goodwill related to the North American Retail operating segment and the Institutional Sales operating segment and certain other indefinite lived intangible assets, the Company assessed qualitative factors in order to determine whether any events and circumstances existed which indicated that it was more likely than not that the fair value of these indefinite lived intangible assets did not exceed its carrying value and concluded no such events or circumstances existed which would require an impairment test being performed. In the future, if events or market conditions affect the estimated fair value to the extent that an asset is impaired, the Company will adjust the carrying value of these assets in the period in which the impairment occurs.

Included within other assets in the accompanying consolidated balance sheets as of March 1, 2014 and March 2, 2013, respectively, are $291.4 million for indefinite lived tradenames and trademarks.

K. Self Insurance

The Company utilizes a combination of insurance and self insurance for a number of risks including workers' compensation, general liability, automobile liability and employee related health care benefits (a portion of which is paid by its employees). Liabilities associated with the risks that the Company retains are estimated by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Although the Company's claims experience has not displayed substantial volatility in the past, actual experience could materially vary from its historical experience in the future. Factors that affect these estimates include but are not limited to: inflation, the number and severity of claims and regulatory changes. In the future, if the Company concludes an adjustment to self insurance accruals is required, the liability will be adjusted accordingly.

L. Deferred Rent

The Company accounts for scheduled rent increases contained in its leases on a straight-line basis over the term of the lease beginning as of the date the Company obtained possession of the leased premises. Deferred rent amounted to $79.0 million and $80.2 million as of March 1, 2014 and March 2, 2013, respectively.

Cash or lease incentives ("tenant allowances") received pursuant to certain store leases are recognized on a straight-line basis as a reduction to rent over the lease term. The unamortized portion of tenant allowances is included in deferred rent and other liabilities. The unamortized portion of tenant allowances amounted to $124.1 million and $126.1 million as of March 1, 2014 and March 2, 2013, respectively.

M. Treasury Stock

Between December 2004 and December 2012, the Company's Board of Directors authorized, through share repurchase programs, the repurchase of $7.450 billion of the Company's common stock.

During fiscal 2013, the Company repurchased approximately 18.3 million shares of its common stock at a total cost of approximately $1.284 billion. During fiscal 2012, the Company repurchased approximately 16.1 million shares of its common stock at a total cost of approximately $1.001 billion. During fiscal 2011, the Company repurchased approximately 21.5 million shares of its common stock at a total cost of approximately $1.218 billion. The Company has approximately $1.1 billion remaining of authorized share repurchases as of March 1, 2014.

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.

N. 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 (See "Fair Value Measurements," Note 5).

O. Revenue Recognition

Sales are recognized upon purchase by customers at the Company's retail stores or upon delivery for products purchased from its websites. The value of point-of-sale coupons and point-of-sale rebates that result in a reduction of the price paid by the customer are recorded as a reduction of sales. Shipping and handling fees that are billed to a customer in a sale transaction are recorded in sales. Taxes, such as sales tax, use tax and value added tax, are not included in sales.

Revenues from gift cards, gift certificates and merchandise credits are recognized when redeemed. Gift cards have no provisions for reduction in the value of unused card balances over defined time periods and have no expiration dates.

Sales returns are provided for in the period that the related sales are recorded based on historical experience. Although the estimate for sales returns has not varied materially from historical provisions, actual experience could vary from historical experience in the future if the level of sales return activity changes materially. In the future, if the Company concludes that an adjustment to the sales return accrual is required due to material changes in the returns activity, the reserve will be adjusted accordingly.

P. Cost of Sales

Cost of sales includes the cost of merchandise, buying costs and costs of the Company's distribution network including inbound freight charges, distribution facility costs, receiving costs, internal transfer costs and shipping and handling costs.

Q. Vendor Allowances

The Company receives allowances from vendors in the normal course of business for various reasons including direct cooperative advertising, purchase volume and reimbursement for other expenses. Annual terms for each allowance include the basis for earning the allowance and payment terms, which vary by agreement. All vendor allowances are recorded as a reduction of inventory cost, except for direct cooperative advertising allowances which are specific, incremental and identifiable. The Company recognizes purchase volume allowances as a reduction of the cost of inventory in the quarter in which milestones are achieved. Advertising costs were reduced by direct cooperative allowances of $24.0 million, $19.8 million and $19.5 million for fiscal 2013, 2012 and 2011, respectively.

R. Store Opening, Expansion, Relocation and Closing Costs

Store opening, expansion, relocation and closing costs, including markdowns, asset residual values and projected occupancy costs, are charged to earnings as incurred.

S. Advertising Costs

Expenses associated with direct response advertising are expensed over the period during which the sales are expected to occur, generally four to seven weeks, and all other expenses associated with store advertising are charged to earnings as incurred. Net advertising costs amounted to $280.5 million, $250.6 million and $192.5 million for fiscal 2013, 2012 and 2011, respectively.

T. Stock-Based Compensation

The Company measures all employee stock-based compensation awards using a fair value method and records such expense in its consolidated financial statements. The Company adopted the accounting guidance related to stock compensation on August 28, 2005 (the "date of adoption") under the modified prospective application. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. 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.

U. Income Taxes

The Company files a consolidated Federal income tax return. Income tax returns are also filed with each taxable jurisdiction in which the Company conducts business.

40

The Company accounts for its income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company intends to reinvest the unremitted earnings of its Canadian subsidiary. Accordingly, no provision has been made for U.S. or additional non-U.S. taxes with respect to these earnings. In the event of repatriation to the U.S., in most cases such earnings would be subject to U.S. income taxes.

The Company recognizes the tax benefit from an uncertain tax position only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the taxing authorities.

Judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various tax authorities. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates.

V. 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 of approximately 1.2 million, 1.2 million and 0.9 million shares were excluded from the computation of diluted earnings per share as the effect would be anti-dilutive for fiscal 2013, 2012 and 2011, respectively.

2. 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. ("Cost Plus 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 Cost Plus World Market. Cost Plus 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 Cost Plus 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.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

(in thousands)	March 1, 2014	March 2, 2013
Land and buildings	$538,422	$488,602
Furniture, fixtures and equipment	1,120,330	1,068,786
Leasehold improvements	1,187,793	1,099,991
Computer equipment and software	755,867	613,087
	3,602,412	3,270,466
Less: Accumulated depreciation	(2,022,608)	(1,803,799)
Property and equipment, net	$1,579,804	$1,466,667

4. LINES OF CREDIT

At March 1, 2014, the Company maintained two uncommitted lines of credit of $100 million each, with expiration dates of September 2, 2014 and February 28, 2015, 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 fiscal 2013 and 2012, the Company did not have any direct borrowings under the uncommitted lines of credit. As of March 1, 2014, there was approximately $4.5 million of outstanding letters of credit. Although no assurances can be provided, the Company intends to renew both uncommitted lines of credit before the respective expiration dates. In addition, as of March 1, 2014, the Company maintained unsecured standby letters of credit of $74.3 million, primarily for certain insurance programs. As of March 2, 2013, there was approximately $11.6 million of outstanding letters of credit and approximately $76.2 million of outstanding unsecured standby letters of credit, primarily for certain insurance programs.

42

5. 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 March 1, 2014, 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 6).

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 $3.3 million and $2.0 million as of March 1, 2014 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 March 1, 2014, the inputs used in the Company’s discounted cash flow analysis included current coupon rates ranging from 0.06% to 0.09%, an estimated redemption period of 5 years and a discount rate of 1.43%. 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 March 1, 2014 and March 2, 2013, measured at fair value on a recurring basis by input level:

	As of March 1, 2014		
(in millions)	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	$-	$ 47.7	$47.7
Long term - trading securities:			
Nonqualified deferred compensation plan assets	39.7	-	39.7
Total	$39.7	$ 47.7	$87.4

	As of March 2, 2013		
(in millions)	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	(1.3)
Balance on March 1, 2014, net of temporary valuation adjustment	$ 47.7

6. INVESTMENT SECURITIES

The Company's investment securities as of March 1, 2014 and March 2, 2013 are as follows:

(in millions)	March 1, 2014	March 2, 2013
Available-for-sale securities:		
Long term	$47.7	$49.0
Trading securities:		
Long term	39.7	28.3
Held-to-maturity securities:		
Short term	489.3	449.9
Total investment securities	$576.7	$527.2

Auction Rate Securities

As of March 1, 2014 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 $3.3 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 March 1, 2014 and March 2, 2013, and none of them are mortgage-backed debt obligations. As of March 1, 2014 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 $47.7 million and $49.0 million of these investments as long term investment securities at March 1, 2014 and March 2, 2013, respectively.

U.S. Treasury Securities

As of March 1, 2014 and March 2, 2013, the Company's short term held-to-maturity securities included approximately $489.3 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 $39.7 million and $28.3 million as of March 1, 2014 and March 2, 2013, respectively.

7. PROVISION FOR INCOME TAXES

The components of the provision for income taxes are as follows:

(in thousands)	FISCAL YEAR ENDED March 1, 2014	March 2, 2013	February 25, 2012
Current:			
Federal	$514,818	$522,812	$475,280
State and local	64,581	55,889	74,438
	579,399	578,701	549,718
Deferred:			
Federal	11,221	15,710	28,695
State and local	537	1,860	1,538
	11,758	17,570	30,233
	$591,157	$596,271	$579,951

At March 1, 2014 and March 2, 2013, included in other current assets is a net current deferred income tax asset of $201.2 million and $212.7 million, respectively, and included in other assets is a net noncurrent deferred income tax asset of $30.2 million and $36.0 million, respectively. These amounts represent the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities consist of the following:

(in thousands)	March 1, 2014	March 2, 2013
Deferred tax assets:		
Inventories	$28,947	$33,699
Deferred rent and other rent credits	79,681	82,123
Insurance	58,860	55,070
Stock-based compensation	33,780	33,486
Merchandise credits and gift card liabilities	42,413	22,683
Accrued expenses	68,237	81,069
Obligations on distribution centers	41,454	42,024
Net operating loss carryforwards and other tax credits	32,389	42,506
Other	59,016	57,129
Deferred tax liabilities:		
Depreciation	(73,106)	(71,358)
Goodwill	(49,278)	(42,719)
Intangibles	(79,471)	(78,106)
Other	(11,480)	(8,875)
	$231,442	$248,731

At March 1, 2014, as a result of the Cost Plus World Market acquisition (See "Acquisitions," Note 2), the Company has federal net operating loss carryforwards of $15.6 million (tax effected), which will begin expiring in 2025, state net operating loss carryforwards of $9.2 million (tax effected), which will expire between 2013 and 2031, California state enterprise zone credit carryforwards of $6.6 million (tax effected), which will expire in 2023, but require taxable income in the enterprise zone to be realizable and other tax credits of $1.0 million (tax effected).

The Company has not established a valuation allowance for the net deferred tax asset as it is considered more likely than not that it is realizable through a combination of future taxable income and the deductibility of future net deferred tax liabilities.

The following table summarizes the activity related to the gross unrecognized tax benefits from uncertain tax positions:

(in thousands)	March 1, 2014	March 2, 2013
Balance at beginning of year	$97,892	$124,963
Increase related to current year positions	19,844	24,892
Increase related to prior year positions	2,292	1,183
Decrease related to prior year positions	(9,316)	(36,104)
Settlements	(782)	(15,670)
Lapse of statute of limitations	(17,317)	(1,372)
Balance at end of year	$92,613	$97,892

At March 1, 2014, the Company has recorded approximately $4.8 million and $87.8 million of gross unrecognized tax benefits in current and non-current taxes payable, respectively, on the consolidated balance sheet of which approximately $92.5 million would impact the Company's effective tax rate. At March 2, 2013, the Company has recorded approximately $17.8 million and $80.1 million of gross unrecognized tax benefits in current and non-current taxes payable, respectively, on the consolidated balance sheet of which approximately $97.4 million would impact the Company's effective tax rate. As of March 1, 2014 and March 2, 2013, the liability for gross unrecognized tax benefits included approximately $16.9 million and $18.9 million, respectively, of accrued interest. The Company recorded a decrease of interest of approximately $2.0 million and $4.9 million, respectively, for the years ended March 1, 2014 and March 2, 2013 for gross unrecognized tax benefits in the consolidated statement of earnings.

The Company anticipates that any adjustments to gross unrecognized tax benefits which will impact income tax expense, due to the expiration of statutes of limitations, could be approximately $4.0 to $5.0 million in the next twelve months. However, actual results could differ from those currently anticipated.

As of March 1, 2014, the Company operated in all 50 states, the District of Columbia, Puerto Rico, Canada and several other international countries and files income tax returns in the United States and various state, local and international jurisdictions. The Company is currently under examination by the Internal Revenue Service for tax years 2009 through 2011. The Company is also open to examination for state and local jurisdictions with varying statutes of limitations, generally ranging from three to five years.

For fiscal 2013, the effective tax rate is comprised of the Federal statutory income tax rate of 35.00%, the State income tax rate, net of Federal benefit, of 3.07%, benefit for uncertain tax positions of 0.05% and other income tax benefits of 1.42%. For fiscal 2012, the effective tax rate is comprised of the Federal statutory income tax rate of 35.00%, the State income tax rate, net of Federal benefit, of 2.93%, provision for uncertain tax positions of 0.07% and other income tax benefits of 1.50%. For fiscal 2011, the effective tax rate is comprised of the Federal statutory income tax rate of 35.00%, the State income tax rate, net of Federal benefit, of 2.90%, provision for uncertain tax positions of 0.23% and other income tax benefits of 1.13%.

8. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

In fiscal 2002, the Company had an interest in certain life insurance policies on the lives of its Co-Chairmen and their spouses. The Company's interest in these policies was equivalent to the net premiums paid by the Company. The agreements relating to the Company's interest in the life insurance policies on the lives of its Co-Chairmen and their spouses were terminated in fiscal 2003. Upon termination in fiscal 2003, the Co-Chairmen paid to the Company $5.4 million, representing the total amount of premiums paid by the Company under the agreements and the Company was released from its contractual obligation to make substantial future premium payments. In order to confer a benefit to its Co-Chairmen in substitution for the aforementioned terminated agreements, the Company has agreed to pay to the Co-Chairmen, at a future date, an aggregate amount of $4.2 million, which is included in accrued expenses and other current liabilities as of March 1, 2014 and March 2, 2013.

9. LEASES

The Company leases retail stores, as well as distribution facilities, offices and equipment, under agreements expiring at various dates through 2041. Certain leases provide for contingent rents (which are based upon store sales exceeding stipulated amounts and are immaterial in fiscal 2013, 2012 and 2011), scheduled rent increases and renewal options. The Company is obligated under a majority of the leases to pay for taxes, insurance and common area maintenance charges.

As of March 1, 2014, future minimum lease payments under non-cancelable operating leases were as follows:

(in thousands)	Operating Leases
Fiscal Year:	
2014	$563,973
2015	515,364
2016	458,798
2017	390,422
2018	322,970
Thereafter	998,019
Total future minimum lease payments	$3,249,546

Expenses for all operating leases were $559.8 million, $536.1 million and $456.2 million for fiscal 2013, 2012 and 2011, respectively.

As a result of the Cost Plus World Market acquisition on June 29, 2012 and in addition to the amounts disclosed above, the Company assumed various capital lease obligations. As of March 1, 2014 and March 2, 2013, the capital lease obligations were approximately $3.9 million and $4.4 million, respectively, for which the current and long-term portions are included within accrued expenses and other current liabilities and deferred rent and other liabilities, respectively, in the consolidated balance sheet. Monthly minimum lease payments are accounted for as principal and interest payments. Interest expense for all capital leases was $0.5 million and $0.4 million for fiscal 2013 and 2012, respectively. The minimum capital lease payments, including interest, by fiscal year are: $0.9