2004

2004 Annual Report • Notice of Annual Meeting • Proxy Statement

BED BATH & BEYOND®

Beyond any store of its kind®

www.bedbathandbeyond.com

Beyond any site of its kind®

To Our Fellow Shareholders:

Through hard work, good fortune and a relentless focus on our customer, we have enjoyed great success over the past thirty-four years. For that we are thankful. We have also learned that keeping our focus on the customer isn't only about merchandise and service. Sometimes, taken just one step further, we can do things with and for our customers that serve not only them, but others in our community as well. For example:

- **Responding to a specific customer request this past year, we offered our customers an opportunity to truly "Support Our Troops" through the purchase of magnetic ribbons, and through this effort we have raised over $400,000 for the United Service Organizations (www.uso.org).**
- **We have partnered with the National Women's Health Resource Center, a non-profit, independent organization dedicated to educating women about their health (www.healthywomen.org), and we have become a member of its Corporate Advisory Board. Together, we are planning informational programs for our stores and website, and we are sponsoring various educational events at certain women's tennis tournaments on the Sony Ericsson WTA Tour, all so as to heighten the awareness of women's health and wellness among our customers and the public. Hopefully we can play a role in encouraging women of all ages to embrace a healthy, active lifestyle.**

In these undertakings, as in all things, we are enormously grateful to our associates, who throw themselves into whatever is placed before them with confidence, enthusiasm and ability. If we have made one customer happy, if we have touched the life of one soldier or encouraged one woman to a more serious consideration of her and her family's health, it should be credited to our people. We've always said it, and it remains true.

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Consolidated Selected Financial Data *(in thousands, except per share and selected operating data)*

	Fiscal Year Ended [1]												
	Feb. 26, 2005	Feb. 28, 2004[2]	March 1, 2003	March 2, 2002	March 3, 2001	Feb. 26, 2000	Feb. 27, 1999	Feb. 28, 1998	March 1, 1997	Feb. 25, 1996	Feb. 26, 1995	Feb. 27, 1994	Feb. 28, 1993
STATEMENT OF EARNINGS DATA													
Net sales	$ 5,147,678	$ 4,477,981	$ 3,665,164	$ 2,927,962	$ 2,396,655	$ 1,857,505	$ 1,382,345	$ 1,057,135	$ 816,912	$ 597,352	$ 437,807	$ 304,571	$ 216,411
Gross profit	2,186,301	1,876,664	1,518,547	1,207,566	986,459	766,801	576,125	441,016	341,168	250,036	183,819	127,972	90,528
Operating profit	792,414	639,343	480,057	346,100	272,838	209,340	158,052	118,914	90,607	67,585	51,685	36,906	26,660
Net earnings	504,964	399,470	302,179	219,599	171,922	131,229	97,346	73,142	55,015	39,459	30,013	21,887	15,960
Net earnings per share– Diluted [3]	$ 1.65	$ 1.31	$ 1.00	$ .74	$ .59	$ .46	$ .34	$ .26	$ .20	$ .14	$ .11	$ .08	$ .06
SELECTED OPERATING DATA													
Number of stores open (at period end)	721	629	519	396	311	241	186	141	108	80	61	45	38
Total square feet of store space (at period end)	22,945,000	20,472,000	17,452,000	14,724,000	12,204,000	9,815,000	7,688,000	5,767,000	4,347,000	3,214,000	2,339,000	1,512,000	1,128,000
Percentage increase in comparable store sales	4.5%	6.3%	7.9%	7.1%	5.0%	9.2%	7.6%	6.4%	6.1%	3.8%	12.0%	10.6%	7.2%
BALANCE SHEET DATA (AT PERIOD END)													
Working capital	$ 1,223,409	$ 1,199,752	$ 914,220	$ 715,439	$ 532,524	$ 360,585	$ 267,557	$ 188,293	$ 127,333	$ 91,331	$ 74,390	$ 56,001	$ 34,842
Total assets	3,199,979	2,865,023	2,188,842	1,647,517	1,195,725	865,800	633,148	458,330	329,925	235,810	176,678	121,468	76,654
Long-term debt	–	–	–	–	–	–	–	–	–	5,000	16,800	13,300	–
Shareholders' equity [4]	$ 2,203,762	$ 1,990,820	$ 1,451,921	$ 1,094,350	$ 817,018	$ 559,045	$ 411,087	$ 295,397	$ 214,361	$ 151,446	$ 108,939	$ 77,305	$ 54,643

(1) Each fiscal year represents 52 weeks, except for fiscal 2000 (ended March 3, 2001) which represents 53 weeks and fiscal 1996 (ended March 1, 1997) which represents 52 weeks and 6 days.

(2) On June 19, 2003, the Company acquired Christmas Tree Shops, Inc. (see Note 2 to the Consolidated Financial Statements).

(3) Net earnings per share amounts for fiscal 2000 and prior have been adjusted for two-for-one stock splits of the Company's common stock (each of which was effected in the form of a 100% stock dividend), which were distributed in fiscal 2000, 1998, 1996 and 1993. The Company has not declared any cash dividends in any of the fiscal years noted above.

(4) In fiscal 2004, the Company repurchased approximately $350 million of its common stock.

To Our Fellow Shareholders: *Continued from front cover*

Everything we do, we are able to do because of the people we have the privilege to work with daily. Our people have again performed in a way that has enabled us to be proud of our accomplishments. On the following pages, we discuss some of the highlights from our recently completed fiscal 2004. We also will provide you with the information you need in connection with our upcoming Annual Meeting. Our goal again is to present you this annual information in as straightforward and cost efficient a manner as possible. So once more we have combined our Annual Report, Notice of Annual Meeting and Proxy Statement into this single booklet.

Fiscal 2004 was our 34th year of operations, and our 13th as a public company. As set forth below, the results of our fiscal 2004 were our best ever. As we did last year, we ask you again to take a look at the chart of selected financial data which appears on the inside front cover of this booklet, opposite this letter, which details our growth over our 13 years as a public company. At the end of our first fiscal year as a public company, in February 1993, we had 38 stores. Net earnings were $15,960,000 on net sales of $216,411,000.

For comparison, here are some of the highlights from fiscal 2004:

- **Net earnings for the year ended February 26, 2005 totaled $505 million ($1.65 per share), exceeding fiscal 2003 net earnings of $399.5 million ($1.31 per share) by approximately 26.4%.**

- **Net sales for fiscal 2004 were $5.148 billion, an increase of approximately 15.0% from the prior year's sales of $4.478 billion.**

- **Comparable store sales for fiscal 2004 increased by approximately 4.5%.**

- **During fiscal 2004, we opened 85 new Bed Bath & Beyond stores. We also opened two Christmas Tree Shops and five Harmon stores. We ended the year with 660 Bed Bath & Beyond stores, 26 Christmas Tree Shops, and 35 Harmon stores.**

- **We returned $350 million in value to our shareholders through our share repurchase program completed during our fiscal fourth quarter.**

- **Cash and investments grew to approximately $1.2 billion. This is after funding our share repurchase program, our expansion program and our ongoing infrastructure enhancements.**

We cannot give enough credit to our people and the culture they have created for the successes of the prior year. However, consistent with our culture, our focus is not on what has been, but rather on what remains to be done and on what is possible. Even though we're pleased with our results, spending too much time looking back does us little good. We are already looking forward. What we know, and what the numbers to the left should say to you quite clearly, is this Company has never been in a better position than it is right now.

While maintaining our solid balance sheet, positive cash flow and the generation of strong earnings will continue to be our primary goals, the position we're in as a Company is expressed in more than mere numbers. We cannot quantify what it may mean to our servicemen and women and their families that, through the support of our customers, we have been able to assist the USO. We may never know whether the health information we provide access to through our affiliation with the National Women's Health Resource Center will encourage our customers and their families to adopt a more health-conscious lifestyle. But it is through these actions that we reaffirm the values that have made our Company so special. It is a pleasure and a privilege to be in the position we are in and to try and make a positive difference.

Simply put, we would like to thank each of our associates for the outstanding efforts that have yielded the results we've been able to discuss with you through this report. In addition, we thank each of our customers and business partners for their continuing support and their contributions in moving us forward.

Warren Eisenberg	Leonard Feinstein	Steven H. Temares
Co-Chairman	*Co-Chairman*	*President & Chief Executive Officer and Member of the Board of Directors*

June 1, 2005

CORPORATE PROFILE

Founded in 1971, Bed Bath & Beyond Inc. operates specialty retail stores nationwide, primarily of a "big box" format and selling predominantly better quality domestics merchandise and home furnishings. The Company's stores combine superior service and a broad selection of items at everyday low prices. Shares of Bed Bath & Beyond Inc. are traded on the NASDAQ National Market under the symbol BBBY and are included in the Standard & Poor's 500 Index and the NASDAQ-100 Index. The Company is counted among the Fortune 500 and the Forbes 2000.

PLEASE VOTE YOUR PROXY!

ELECTRONIC VOTING *SAVES YOUR COMPANY MONEY*

For the last few years, many of our shareholders have saved the Company money by voting their proxies via internet or telephone, rather than by return mail. This year, we again encourage all of our shareholders to take advantage of electronic voting.

Most Bed Bath & Beyond shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. If you hold your shares in one of these ways, you are considered a beneficial owner. Your broker or nominee has enclosed a voting instruction form for you to use in directing them in how to vote your shares. Most institutions make internet or telephone voting options available to their beneficial owners, so please see the voting instruction form for specific information.

If your shares are registered directly in your name with Bed Bath & Beyond's transfer agent, you are considered the shareholder of record with respect to those shares, and these proxy materials are being sent directly to you. As the shareholder of record, you have the right to vote by proxy. We encourage our registered shareholders to vote:

By internet - **www.proxyvote.com***; or*

By touch-tone phone - **1-800-690-6903**

Have your proxy card in hand when you access the website or call the toll-free number. Then you can follow the directions provided.

ELECTRONIC DELIVERY OF PROXY STATEMENT AND ANNUAL REPORT

This proxy statement and the 2004 Annual Report are available in advance of the annual meeting in the Investor Relations section of Bed Bath & Beyond's Internet site at **www.bedbathandbeyond.com**. Most shareholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail. Doing so will save the Company printing and mailing expense.

If you are a shareholder of record, you can choose this option and save Bed Bath & Beyond the cost of production and mailing these documents by following the instructions provided when you vote over the Internet. If you hold your Bed Bath & Beyond shares through a bank, broker or other holder of record, please refer to the information provided by that entity for instructions on how to elect to view future proxy statements and annual reports over the Internet.

If you choose to view future proxy statements and annual reports over the Internet, you will receive an e-mail message next year containing the Internet address to access Bed Bath & Beyond's proxy statement and annual report. You do not have to elect Internet access each year. To view, cancel or change your enrollment profile, please go to ***www.InvestorDelivery.com***. Your choice will remain in effect until you indicate otherwise.

OVERVIEW

Bed Bath & Beyond Inc. and subsidiaries (the "Company") operate specialty retail stores nationwide, including stores of Bed Bath & Beyond ("BBB"), Harmon Stores, Inc. ("Harmon") and Christmas Tree Shops, Inc. ("CTS"), primarily selling predominantly better quality domestics merchandise and home furnishings. The Company's objective is to be a customer's first choice for products and services in the categories offered, in the markets in which the Company operates.

The Company's strategy is to achieve this objective through excellent customer service, an extensive breadth and depth of assortment, everyday low prices, introduction of new merchandising offerings and development of our 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, consumer preferences and spending habits, competition from existing and potential competitors, unusual weather patterns and the ability to find suitable locations at acceptable occupancy costs to support the Company's expansion program.

In fiscal 2004, the Company's consolidated net sales increased by 15.0% and net earnings increased by 26.4%. Contributing to this increase was the expansion of BBB store space by 12.1%, from 19,353,000 square feet at fiscal year end 2003 to 21,691,000 square feet at fiscal year end 2004. The 2,338,000 square feet increase was primarily the result of opening 85 new BBB stores and relocating one existing store.

Also contributing to this increase in fiscal 2004 was an acquisition made by the Company in June 2003. The Company acquired CTS in fiscal 2003 for approximately $194.4 million, net of cash acquired, including the costs of the acquisition, comprising $175.5 million of cash and $18.9 million in deferred payments payable in cash over three years. CTS is a retailer of giftware and household items selling a broad assortment of domestics merchandise and home furnishings at value prices in many categories including home décor, giftware, housewares, food, paper goods and seasonal products. CTS' results of operations are included in the Company's consolidated results of operations since the date of acquisition.

Comparable store sales for fiscal 2004 increased by approximately 4.5% as compared with an increase of approximately 6.3% and 7.9% in fiscal 2003 and 2002, respectively. As of the beginning of the fiscal third quarter of 2004, CTS was included in the calculation of comparable store sales. The fiscal 2004 increase in comparable store sales reflected a number of factors, including but not limited to, the continued consumer acceptance of the Company's merchandise offerings and a strong focus on customer service with an emphasis on responding to customer feedback.

A store is considered a comparable store when it has been open for twelve full months following its grand opening period (typically four to six weeks). Stores relocated or expanded are excluded from comparable store sales if the change in square footage would cause meaningful disparity in sales over the prior period. In the case of a store to be closed, such store's sales are not considered comparable once the store closing process has commenced.

The Company plans to continue to expand its operations and invest in its infrastructure to reach its long-term objectives.

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	
	February 26, 2005	February 28, 2004	March 1, 2003	**February 26, 2005**	February 28, 2004
Net sales	**100.0%**	100.0%	100.0%	**15.0%**	22.2%
Cost of sales	**57.5**	58.1	58.6	**13.8**	21.2
Gross profit	**42.5**	41.9	41.4	**16.5**	23.6
Selling, general and administrative expenses	**27.1**	27.6	28.3	**12.7**	19.1
Operating profit	**15.4**	14.3	13.1	**23.9**	33.2
Earnings before provision for income taxes	**15.8**	14.5	13.4	**24.9**	32.2
Net earnings	**9.8**	8.9	8.2	**26.4**	32.2

Net Sales

Net sales in fiscal 2004 increased $669.7 million to $5.148 billion, representing an increase of 15.0% over the $4.478 billion of net sales in fiscal 2003, which increased $812.8 million or 22.2% over net sales of $3.665 billion in fiscal 2002. Approximately 56% of the increase in fiscal 2004 was attributable to an increase in the Company's new store sales, approximately 15% of the increase was attributable to the net sales of CTS (acquired on June 19, 2003) and the balance of the increase was primarily attributable to the increase in comparable store sales. The increase in comparable store sales for fiscal 2004 of 4.5% was due to a number of factors, including but not limited to, the continued consumer acceptance of the Company's merchandise offerings and a strong focus on customer service with an emphasis on responding to customer feedback. For fiscal 2003, approximately 41% of the increase in net sales was attributable to an increase in BBB's new store sales, approximately 34% of the increase was attributable to the net sales of CTS and the balance of the increase was primarily attributable to the increase in comparable store sales.

Sales of domestics merchandise accounted for approximately 48%, 51% and 55% of net sales in fiscal 2004, 2003 and 2002, respectively, of which the Company estimates that bed linens accounted for approximately 17%, 16% and 19% of net sales in fiscal 2004, 2003 and 2002, respectively. The remaining net sales in fiscal 2004, 2003 and 2002 of 52%, 49% and 45%, respectively, represented sales of home furnishings. The change in the product mix between fiscal 2004 and 2003 and between fiscal 2003 and 2002 is primarily the result of the acquisition of CTS in June 2003. No other individual product category accounted for 10% or more of net sales during fiscal 2004, 2003 or 2002.

Gross Profit

Gross profit in fiscal 2004, 2003 and 2002 was $2.186 billion or 42.5% of net sales, $1.877 billion or 41.9% of net sales and $1.519 billion or 41.4% of net sales, respectively. The increase in gross profit between fiscal 2004 and 2003 as a percentage of net sales was primarily attributable to the reduction of inventory acquisition costs of the Company's current merchandise offerings. The increase in gross profit between fiscal 2003 and 2002 as a percentage of net sales was primarily attributable to improvements in both the markup and in markdowns taken.

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") were $1.394 billion or 27.1% of net sales in fiscal 2004 compared to $1.237 billion or 27.6% of net sales in fiscal 2003. The decrease in SG&A as a percentage of net sales primarily reflects a relative decrease in payroll and payroll related items, occupancy costs and other expenses, which primarily resulted from the comparable store sales increase. The above relative decreases were partially offset by a relative increase in net advertising costs.

SG&A as a percentage of net sales decreased to 27.6% in fiscal 2003 from 28.3% in fiscal 2002 primarily as a result of a relative decrease in occupancy costs, other store expenses and costs associated with new store openings, partially offset by a relative increase in litigation expense and net advertising costs. SG&A in fiscal 2003 was $1.237 billion as compared to $1.038 billion in fiscal 2002.

Operating Profit

Operating profit increased to $792.4 million in fiscal 2004 compared to $639.3 million in fiscal 2003. The improvements in operating profit were a result of the increase in net sales and a relative increase in gross profit as a percentage of net sales and a relative decrease in SG&A as a percentage of net sales, as discussed above.

Interest income

Interest income increased to $18.8 million in fiscal 2004 compared to $10.2 million in fiscal 2003 due to an increase in the cash invested and an increase in the Company's average investment interest rate as a result of the recent upward trend in short term interest rates. Interest income decreased in fiscal 2003 from $11.3 million in fiscal 2002 due to the decrease in the average investment interest rate partially offset by an increase in the cash invested.

Income taxes

The effective tax rate was 37.75% for fiscal 2004 and 38.50% for fiscal 2003 and 2002. The decrease is due to a reduction in the weighted average effective tax rate resulting from a change in the mix of the business within the taxable jurisdictions in which the Company operates.

EXPANSION PROGRAM

The Company is engaged in an ongoing expansion program involving the opening of new stores in both new and existing markets and the expansion or relocation of existing stores. In the thirteen year period from the beginning of fiscal 1992 to the end of fiscal 2004, the chain has grown from 34 to 660 BBB stores. Total BBB stores' square footage grew from 917,000 square feet at the beginning of fiscal 1992 to 21,691,000 square feet at the end of fiscal 2004. There were 35 Harmon stores with 240,000 square feet and 26 CTS stores with 1,014,000 square feet at the end of fiscal 2004.

The Company intends to continue its expansion program and currently plans to open new BBB, Harmon and CTS stores in fiscal 2005 (see details under "Liquidity and Capital Resources" below). The Company believes that a predominant portion of any increase in its net sales in fiscal 2005 will continue to be attributable to new store net sales. Accordingly, the continued growth of the Company is dependent, in large part, upon the Company's ability to execute its expansion program successfully, of which there can be no assurance.

LIQUIDITY AND CAPITAL RESOURCES

The Company has been able to finance its operations, including its expansion program, through internally generated funds. Net cash provided by operating activities in fiscal 2004 was $616.4 million, compared with $548.4 million in fiscal 2003. The increase in net cash provided by operating activities was primarily attributable to an increase in net income and the timing of certain liability payments, partially offset by an increase in merchandise inventories (primarily the result of new store space) and the reduction of the tax benefit from the exercise of stock options.

Inventory per square foot was $50.21 as of February 26, 2005 and $49.45 as of February 28, 2004. The Company continues to focus on optimizing inventory productivity while maintaining appropriate in-store merchandise levels to support sales growth.

Net cash used in investing activities in fiscal 2004 was $363.0 million compared with $687.2 million in fiscal 2003. The decrease in net cash used in investing activities was attributable to an increase in redemptions of investment securities and the payment for the acquisition of CTS in the prior year, partially offset by an increase in purchases of investment securities.

Net cash used in financing activities in fiscal 2004 was $325.7 million, compared with net cash provided by financing activities of $53.4 million in fiscal 2003. The change in net cash resulting from financing activities was primarily attributable to the repurchase of common stock and a decrease in proceeds from the exercise of stock options.

At February 26, 2005, the Company maintained two uncommitted lines of credit of $100 million and $50 million, with expiration dates of September 3, 2005 and February 28, 2005, respectively. Subsequent to the end of fiscal 2004, the Company increased the amount of the $50 million uncommitted line of credit to $75 million and extended the expiration to February 28, 2006. These uncommitted lines of credit are currently used for letters of credit in the ordinary course of business. It is the Company's intent to maintain an uncommitted line of credit for this purpose. During fiscal 2004, the Company did not have any direct borrowings under the uncommitted lines of credit. As of February 26, 2005, there was approximately $13.4 million of outstanding letters of credit. In addition, under the above uncommitted lines of credit, the Company can obtain unsecured standby letters of credit. As of February 26, 2005, there was approximately $38.1 million of outstanding unsecured standby letters of credit, primarily for certain insurance programs. The Company believes that during fiscal 2005, internally generated funds will be sufficient to fund its operations, including its expansion program.

The Company has contractual obligations consisting mainly of operating leases for stores, offices, warehouse facilities and equipment, purchase obligations and deferred acquisition payments which are payable as of February 26, 2005 as follows:

(in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Lease Obligations	$ 2,983,765	$ 308,698	$ 947,078	$ 551,409	$ 1,176,580
Purchase Obligations	512,369	512,369	—	—	—
Deferred Acquisition Payments	13,334	6,667	6,667	—	—
Total Contractual Obligations	$ 3,509,468	$ 827,734	$ 953,745	$ 551,409	$ 1,176,580

As of February 26, 2005, the Company has leased sites for 69 new stores planned for opening in fiscal 2005 or 2006, for which aggregate minimum rental payments over the term of the leases are approximately $459.8 million and are included in the table above.

Purchase obligations primarily consist of purchase orders for merchandise and capital expenditures.

Other significant commitments and contingencies include the following:

- The Company utilizes a combination of insurance and self insurance for a number of risks including workers' compensation, general liability and automobile liability.
- Some of the Company's operating lease agreements have scheduled rent increases. The Company accounts for these scheduled rent increases on a straight line basis over the expected lease term, beginning when the Company obtains possession of the premises, thus creating deferred rent.
- The Company has a non-contributory defined benefit pension plan for CTS employees who meet specified age and length of service requirements. The Company intends to make a minimum contribution of approximately $2.3 million during fiscal 2005.

SEASONALITY

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

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.

RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. In addition, the adoption of SFAS No. 123R requires additional accounting and disclosure related to income tax and cash flow effects resulting from share-based payment arrangements.

On April 14, 2005, the Securities and Exchange Commission delayed the effective date of adoption of SFAS No. 123R to the beginning of the first annual period after June 15, 2005. The Company is currently evaluating the impact of the delayed effective date in determining the timing of adopting SFAS No. 123R.

REVISED APPROACH TO COMPENSATION

On April 20, 2005, the Compensation Committee made awards to executive officers and other executives reporting to the Company's Chief Executive Officer consisting of a combination of restricted stock and stock option grants. Consistent with past practice, the stock options granted to these executives will vest over time, subject, in general, to the executive's remaining in the Company's employ on specified vesting dates. Vesting of the restricted stock awarded to these executives will be dependent on (i) the Company's achievement of a performance-based test for the fiscal year of grant, and (ii) assuming achievement of the performance-based test, time vesting, subject, in general, to the executive remaining in the Company's employ on specified vesting dates.

The Company's other employees who traditionally have received stock option grants have begun to receive awards consisting solely of restricted stock. Vesting of the restricted stock awarded to these employees will be based solely on time vesting with no performance test. The Company will record an expense related to the restricted stock program in fiscal 2005 in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

CRITICAL ACCOUNTING POLICIES

The preparation of 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 the provision for sales returns, inventory valuation, impairment of long-lived assets, goodwill and other indefinitely lived intangible assets, income taxes and accruals for self insurance, litigation and store opening, expansion, relocation and closing costs. Actual results could differ from these estimates.

Sales Returns: Sales returns, which are reserved for based on historical experience, are provided for in the period that the related sales are recorded. 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 returns accrual is required, the reserve will be adjusted accordingly.

Inventory Valuation: Merchandise inventories are stated at the lower of cost or market. Inventory costs for BBB and Harmon are calculated using the retail inventory method and inventory cost for CTS is calculated using the first-in, first-out cost method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories.

At any one time, inventories include items that have been written down to the Company's best estimate of their realizable value. Factors considered in estimating realizable value include 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. Actual shrinkage is recorded at year-end based upon the results of the Company's physical inventory count. Historically, the Company's shrinkage has not been volatile.

Impairment of Long-Lived Assets: The Company reviews long-lived assets for impairment annually or when events or changes in circumstances indicate the carrying value of these assets may exceed their current fair values. If it is determined that an impairment loss has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between asset carrying values and the estimated future undiscounted cash flows. The Company has not historically had any material impairment of long-lived assets. In the future, if events or market conditions affect the estimated cash flows generated by the Company's long-lived assets 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.

Goodwill and Other Indefinitely 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 indefinitely lived intangible assets. 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.

Income 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 carryforwards. 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.

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.

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 various claims and legal actions arising in the ordinary course of business which 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 its pending litigation and revises its estimates as appropriate. The Company 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 estimates for markdowns, asset residual values and projected occupancy costs, are charged to earnings as incurred. Prior to the adoption of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which was effective for any exit or disposal activity initiated after December 31, 2002, costs related to store relocations and closings were provided for in the period in which management approved the relocation or closing of a store. Actual costs related to store relocations and closings could differ from these estimates.

FORWARD LOOKING STATEMENTS

This Annual Report and, in particular, Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Shareholder Letter, 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 that may be outside the Company's control. Such factors include, without limitation: general economic conditions, changes in the retailing environment and consumer spending habits, demographics and other macroeconomic factors that may impact the level of spending for the types of merchandise sold by the Company; unusual weather patterns; competition from existing and potential competitors; competition from other channels of distribution; pricing pressures; the ability to find suitable locations at acceptable occupancy costs to support the Company's expansion program; and the cost of labor, merchandise and other costs and expenses.

CONSOLIDATED BALANCE SHEETS

Bed Bath & Beyond Inc. and Subsidiaries

(in thousands, except per share data)	**February 26, 2005**	February 28, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 222,108**	$ 294,500
Short term investment securities	**629,339**	572,095
Merchandise inventories	**1,152,028**	1,012,334
Other current assets	**93,527**	90,357
Total current assets	**2,097,002**	1,969,286
Long term investment securities	**324,209**	210,788
Property and equipment, net	**609,631**	516,164
Goodwill	**147,559**	147,269
Other assets	**21,578**	21,516
	$3,199,979	$2,865,023
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 450,525**	$ 398,650
Accrued expenses and other current liabilities	**254,643**	273,851
Merchandise credit and gift card liabilities	**87,061**	63,188
Income taxes payable	**81,364**	33,845
Total current liabilities	**873,593**	769,534
Deferred rent and other liabilities	**122,624**	104,669
Total liabilities	**996,217**	874,203
Commitments and contingencies (notes 4, 8 and 10)		
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 302,825 and 300,278 shares, respectively; outstanding 294,063 and 300,278 shares, respectively	**3,028**	3,003
Additional paid-in capital	**491,508**	433,404
Retained earnings	**2,059,377**	1,554,413
Treasury stock, at cost	**(350,151)**	—
Total shareholders' equity	**2,203,762**	1,990,820
	$3,199,979	$2,865,023

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS

Bed Bath & Beyond Inc. and Subsidiaries

	FISCAL YEAR ENDED		
(in thousands, except per share data)	**February 26, 2005**	February 28, 2004	March 1, 2003
Net sales	**$ 5,147,678**	$ 4,477,981	$ 3,665,164
Cost of sales	**2,961,377**	2,601,317	2,146,617
Gross profit	**2,186,301**	1,876,664	1,518,547
Selling, general and administrative expenses	**1,393,887**	1,237,321	1,038,490
Operating profit	**792,414**	639,343	480,057
Interest income	**18,773**	10,202	11,291
Earnings before provision for income taxes	**811,187**	649,545	491,348
Provision for income taxes	**306,223**	250,075	189,169
Net earnings	**$ 504,964**	$ 399,470	$ 302,179
Net earnings per share – Basic	**$ 1.68**	$ 1.35	$ 1.03
Net earnings per share – Diluted	**$ 1.65**	$ 1.31	$ 1.00
Weighted average shares outstanding – Basic	**300,743**	296,854	292,927
Weighted average shares outstanding – Diluted	**306,642**	304,690	301,147

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Bed Bath & Beyond Inc. and Subsidiaries

	COMMON STOCK		ADDITIONAL PAID-IN	RETAINED	TREASURY STOCK		
(in thousands)	SHARES	AMOUNT	CAPITAL	EARNINGS	SHARES	AMOUNT	TOTAL
Balance at March 2, 2002	291,441	$2,914	$238,672	$ 852,764	—	$ —	$1,094,350
Net earnings				302,179			302,179
Shares sold under employee stock option plans, including tax benefit	2,989	30	55,362				55,392
Balance at March 1, 2003	294,430	2,944	294,034	1,154,943	—	—	1,451,921
Net earnings				399,470			399,470
Shares sold under employee stock option plans, including tax benefit	5,848	59	139,370				139,429
Balance at February 28, 2004	300,278	3,003	433,404	1,554,413	—	—	1,990,820
Net earnings				504,964			504,964
Shares sold under employee stock option plans, including tax benefit	2,547	25	58,104				58,129
Repurchase of common stock, including fees					(8,762)	(350,151)	(350,151)
Balance at February 26, 2005	**302,825**	**$3,028**	**$491,508**	**$2,059,377**	**(8,762)**	**$(350,151)**	**$2,203,762**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Bed Bath & Beyond Inc. and Subsidiaries

(in thousands)	FISCAL YEAR ENDED **February 26, 2005**	February 28, 2004	March 1, 2003
Cash Flows from Operating Activities:			
Net earnings	**$ 504,964**	$ 399,470	$ 302,179
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**97,491**	84,645	74,825
Amortization of bond premium	**1,657**	1,185	985
Tax benefit from exercise of stock options	**27,049**	64,832	31,176
Deferred income taxes	**4,056**	(3,061)	(13,291)
(Increase) decrease in assets, net of effects of acquisitions:			
Merchandise inventories	**(139,694)**	(27,058)	(145,789)
Other current assets	**(7,350)**	(2,055)	(7,927)
Other assets	**(145)**	5,466	190
Increase (decrease) in liabilities, net of effects of acquisitions:			
Accounts payable	**51,875**	19,341	86,144
Accrued expenses and other current liabilities	**(12,733)**	17,622	39,831
Merchandise credit and gift card liabilities	**23,873**	19,006	13,060
Income taxes payable	**47,519**	(37,993)	20,378
Deferred rent and other liabilities	**17,827**	7,042	17,556
Net cash provided by operating activities	**616,389**	548,442	419,317
Cash Flows from Investing Activities:			
Purchase of held-to-maturity investment securities	**(484,793)**	(325,663)	(368,008)
Redemption of held-to-maturity investment securities	**122,349**	357,020	170,000
Purchase of available-for-sale investment securities	**(2,414,778)**	(1,997,804)	(135,761)
Redemption of available-for-sale investment securities	**2,604,900**	1,567,700	—
Payments for acquisitions, net of cash acquired	**—**	(175,487)	(24,097)
Capital expenditures	**(190,721)**	(112,999)	(135,254)
Net cash used in investing activities	**(363,043)**	(687,233)	(493,120)
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options	**31,080**	74,597	24,216
Repurchase of common stock, including fees	**(350,151)**	—	—
Payment of deferred purchase price for acquisition	**(6,667)**	—	—
Prepayment of acquired debt	**—**	(21,215)	—
Net cash (used in) provided by financing activities	**(325,738)**	53,382	24,216
Net decrease in cash and cash equivalents	**(72,392)**	(85,409)	(49,587)
Cash and cash equivalents:			
Beginning of period	**294,500**	379,909	429,496
End of period	**$ 222,108**	$ 294,500	$ 379,909

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") operate specialty retail stores nationwide, including stores of Bed Bath & Beyond ("BBB"), Harmon Stores, Inc. ("Harmon") and Christmas Tree Shops, Inc. ("CTS") primarily selling predominantly better quality domestics merchandise and home furnishings. As the Company operates in the retail industry, its results of operations are affected by general economic conditions and consumer spending habits.

B. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

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

C. 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 2004, 2003 and 2002 represented 52 weeks and ended on February 26, 2005, February 28, 2004 and March 1, 2003, respectively.

D. Segments

The Company accounts for its operations as one operating segment.

E. Use of Estimates

The preparation of 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 the provision for sales returns, inventory valuation, impairment of long-lived assets, goodwill and other indefinitely lived intangible assets, vendor allowances, income taxes and accruals for self insurance, litigation and store opening, expansion, relocation and closing costs. Actual results could differ from these estimates.

F. Recent Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations." FIN No. 47 clarifies the term "conditional asset retirement obligation" as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations." This interpretation requires companies to recognize a liability for the fair value of a legal obligation to perform asset-retirement activities that are conditional on a future event if the amount can be reasonably estimated. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company does not believe that the adoption of FIN No. 47 will have a material impact on the Company's consolidated financial statements.

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4." SFAS 151 amends the guidance to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials should be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to the costs of conversions be based on the normal capacity of the production facilities. The statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe that the adoption of SFAS No. 151 will have a material impact on the Company's consolidated financial statements.

In December 2003, the FASB issued FIN No. 46R, "Consolidation of Variable Interest Entities." FIN No. 46R replaces FIN No. 46 and addresses consolidation by business enterprises of variable interest entities. The provisions of FIN No. 46R are effective for the first reporting period that ends after December 15, 2003 for variable interests in those entities commonly referred to as special purpose entities. Application of the provisions of FIN No. 46R for all other entities is effective for the first reporting period ending after March 15, 2004. The adoption of FIN No. 46R did not have a material impact on the Company's consolidated financial statements.

In November 2003, the FASB ratified the Emerging Issues Task Force's ("EITF") consensus on Issue 03-10, "Application of EITF Issue No. 02-16, 'Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor,' by Resellers to Sales Incentives Offered to Consumers by Manufacturers" which amends EITF 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor". This consensus requires that if certain criteria are met, consideration received by a reseller in the form of reimbursement from a vendor for honoring the vendor's sales incentives offered to consumers, such as manufacturer's coupons and rebates offered to consumers, should not be recorded as a reduction of the cost of the reseller's purchases from the vendor. The Company adopted EITF 03-10 at the beginning of fiscal 2004. The adoption of EITF 03-10 did not have a material impact on the Company's consolidated financial statements.

G. 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 of held-to-maturity debt securities which are stated at amortized cost and available-for-sale debt securities which are stated at their approximate fair value. The book value of all financial instruments is representative of their fair values with the exception of investment securities (see Note 5 - Investment Securities).

H. Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents.

I. Investment Securities

Investment securities consist of auction rate securities, U.S. Government Agency debt securities and municipal debt securities.

Auction rate securities are securities with interest rates that reset periodically through an auction process. Auction rate securities are classified as available-for-sale and are stated at cost or par value which approximates fair value due to interest rates which reset periodically, typically within 28 days. As a result, there are no cumulative gross unrealized holding gains or losses relating to these auction rate securities. All income from these investments is recorded as interest income for each of the periods presented. The Company previously classified auction rate securities as cash and cash equivalents. The Company reclassified $530.5 million of auction rate securities reported as cash and cash equivalents as of February 28, 2004 to short term investment securities.

All other investment securities are classified as held-to-maturity because the Company has the ability and intent to hold these investments until maturity and are stated at amortized cost.

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.

J. Inventory Valuation

Merchandise inventories are stated at the lower of cost or market. Inventory costs for BBB and Harmon are calculated using the retail inventory method and inventory cost for CTS is calculated using the first-in, first-out cost method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories.

At any one time, inventories include items that have been written down to the Company's best estimate of their realizable value. Factors considered in estimating realizable value include 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. Actual shrinkage is recorded at year-end based upon the results of the Company's physical inventory count. Historically, the Company's shrinkage has not been volatile.

K. 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 fifteen years for furniture, fixtures and equipment; and three to five 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.

The cost of maintenance and repairs is charged to earnings as incurred; significant renewals and betterments are capitalized. Maintenance and repairs amounted to $51.4 million, $44.5 million and $34.7 million for fiscal 2004, 2003 and 2002, respectively.

L. Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment annually or when events or changes in circumstances indicate the carrying value of these assets may exceed their current fair values. If it is determined that an impairment loss has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between asset carrying values and the estimated future undiscounted cash flows. The Company has not historically had any material impairment of long-lived assets. In the future, if events or market conditions affect the estimated cash flows generated by the Company's long-lived assets 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.

M. Goodwill and Other Indefinitely 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 indefinitely lived intangible assets. 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 February 26, 2005 and February 28, 2004 is $19.9 million for the tradename of CTS (see Note 2 - Acquisitions) which is not subject to amortization.

N. 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.

O. Litigation

The Company records an estimated liability related to various claims and legal actions arising in the ordinary course of business which is based on available information and advice from outside counsel, where appropriate. As additional information becomes available, the Company reassesses the potential liability related to its pending litigation and revises its estimates as appropriate. The Company 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.

P. Deferred Rent

The Company accounts for scheduled rent increases contained in its leases on a straight-line basis over the term of the lease. Historically, the Company's method of accounting defined the beginning of the lease term as the date the Company commenced lease payments. In fiscal 2004, due to clarification by the Office of the Chief Accountant of the Securities and Exchange Commission, the Company changed its method of accounting to define the beginning of the lease term as the date the Company obtained possession of the leased premises. This change in the Company's method of accounting did not have a material impact on the Company's fiscal 2003 and prior consolidated financial statements. Deferred rent amounted to $42.6 million and $32.7 million as of February 26, 2005 and February 28, 2004, respectively.

Q. Treasury Stock

In December 2004, the Board of Directors approved a $350 million share repurchase program, authorizing the repurchase of shares of its common stock. The Company was authorized to make repurchases from time to time in the open market pursuant to existing rules and regulations and other parameters approved by the Board. The Company repurchased 8,762,300 shares for approximately $350 million during fiscal 2004. The program was completed prior to the end of the fiscal year.

R. Revenue Recognition

Sales are recognized upon purchase by customers at our retail stores or when shipped for products purchased from our 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. Revenues from gift cards, gift certificates and merchandise credits are recognized when redeemed.

Sales returns, which are reserved for based on historical experience, are provided for in the period that the related sales are recorded. 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 returns accrual is required, the reserve will be adjusted accordingly. For fiscal 2004, 2003 and 2002, the provision for sales returns was $1.2 million, $1.3 million and $1.5 million, respectively, and no deductions were made to the reserve for sales returns. In fiscal 2003, a reserve of approximately $0.5 million was assumed in the acquisition of CTS. As of February 26, 2005, February 28, 2004 and March 1, 2003, the reserve for sales returns was $11.9 million, $10.7 million and $8.9 million, respectively.

S. Cost of Sales

Cost of sales includes the cost of merchandise, buying costs and costs of our distribution network including inbound freight charges, distribution facility costs, receiving costs and internal transfer costs.

T. 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. Prior to the adoption of EITF 02-16, allowances were recorded as either a reduction of inventory cost, an advertising expense or a sales incentive. After adopting EITF 02-16, which was effective for all new vendor allowances, including modifications of existing allowances, entered into after December 31, 2002, 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 $8.7 million and $9.5 million for fiscal 2004 and 2003, respectively.

U. Store Opening, Expansion, Relocation and Closing Costs

Store opening, expansion, relocation and closing costs, including estimates for markdowns, asset residual values and projected occupancy costs, are charged to earnings as incurred. Prior to the adoption of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which was effective for any exit or disposal activity initiated after December 31, 2002, costs related to store relocations and closings were provided for in the period in which management approved the relocation or closing of a store. Actual costs related to store relocations and closings could differ from these estimates.

V. Advertising Costs

Expenses associated with store advertising are charged to earnings as incurred. Net advertising costs amounted to $134.5 million, $93.7 million and $58.8 million for fiscal 2004, 2003 and 2002, respectively.

W. Income Taxes

The Company files a consolidated Federal income tax return. Income tax returns are filed with each state and territory in which the Company conducts business.

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 carryforwards. 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.

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.

X. Earnings per Share

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

Options for which the exercise price was greater than the average market price of common shares as of the fiscal years ended 2004, 2003 and 2002 were not included in the computation of diluted earnings per share as the effect would be anti-dilutive. These consisted of options totaling 2,766,430, 543,750 and 158,925 shares, respectively.

Y. Stock-Based Compensation

As permitted under SFAS No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123," the Company has elected not to adopt the fair value based method of accounting for its stock-based compensation plans, but continues to apply the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." The Company has complied with the disclosure requirements of SFAS No. 148.

Accordingly, no compensation cost has been recognized in connection with the Company's stock option plans. Set forth below are the Company's net earnings and net earnings per share "as reported," and as if compensation cost had been recognized ("pro forma") in accordance with the fair value provisions of SFAS No. 148:

	FISCAL YEAR		
(in thousands)	**2004**	2003	2002
NET EARNINGS:			
As reported	**$504,964**	$399,470	$302,179
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	**(34,686)**	(29,372)	(25,443)
Pro forma	**$470,278**	$370,098	$276,736
NET EARNINGS PER SHARE:			
Basic:			
As reported	**$ 1.68**	$ 1.35	$ 1.03
Pro forma	**$ 1.56**	$ 1.25	$ 0.94
Diluted:			
As reported	**$ 1.65**	$ 1.31	$ 1.00
Pro forma	**$ 1.55**	$ 1.23	$ 0.92

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	FISCAL YEAR		
	2004	2003	2002
Expected lives (years)	**6.1**	5.9	7.0
Expected volatility	**42.00%**	45.00%	45.00%
Risk free interest rates	**3.89%**	2.96%	4.72%
Dividend yield	—	—	—
Weighted average fair value of options granted during the year	**$17.16**	$16.29	$17.15

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. In addition, the adoption of SFAS No. 123R requires additional accounting and disclosure related to income tax and cash flow effects resulting from share-based payment arrangements.

On April 14, 2005, the Securities and Exchange Commission delayed the effective date of adoption of SFAS No. 123R to the beginning of the first annual period after June 15, 2005. The Company is currently evaluating the impact of the delayed effective date in determining the timing of adopting SFAS No. 123R.

Z. Reclassifications

Certain reclassifications have been made to the fiscal 2003 and 2002 consolidated financial statements to conform to the fiscal 2004 consolidated financial statement presentation.

2. ACQUISITIONS

On June 19, 2003, the Company acquired CTS. CTS is a retailer of giftware and household items selling a broad assortment of domestics merchandise and home furnishings at value prices in many categories including home décor, giftware, housewares, food, paper goods and seasonal products. The results of CTS' operations have been included in the consolidated financial statements since the date of acquisition. At the date of acquisition, CTS, headquartered in South Yarmouth, Massachusetts, operated 23 stores in 6 states.

The aggregate all cash purchase price, including the costs of the acquisition, was approximately $194.4 million, net of cash acquired, comprising $175.5 million of cash and $18.9 million in deferred payments payable in cash over three years. In June 2004, the Company paid the first of these deferred payments of $6.7 million.

The acquisition has been accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations." The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition including a debt prepayment penalty.

(in thousands)	June 19, 2003
Current assets	$ 73,302
Property and equipment and other non-current assets	72,390
Intangible asset	19,898
Goodwill	132,003
Total assets acquired	297,593
Accounts payable and other liabilities	(82,027)
Bank debt	(21,215)
Total liabilities assumed	(103,242)
Net assets acquired	$194,351

The intangible asset acquired represents the CTS tradename and is not subject to amortization. The goodwill and intangible asset are expected to be deductible for tax purposes.

The pro forma financial information of the Company presented below is unaudited and is based on the Company's historical results, adjusted for the impact of certain acquisition related items, such as: the reduction of net interest income due to the purchase price paid and the prepayment of CTS' debt, the net reduction of certain selling, general and administrative expenses directly attributable to the transaction, and the related pro forma income tax effects, in each case as if they occurred as of the beginning of each respective period.

	For the Year Ended	
(in thousands, except per share data)	February 28, 2004 (Pro Forma)	March 1, 2003 (Pro Forma)
Net sales	$4,582,309	$4,037,956
Net earnings	$ 402,479	$ 318,139
Net earnings per share:		
Basic	$ 1.36	$ 1.09
Diluted	$ 1.32	$ 1.06

The unaudited pro forma results of the Company have been prepared for comparative purposes only and in management's opinion, do not purport to be indicative of the Company's results of operations that would have occurred had the CTS acquisition been consummated at the beginning of the respective periods. Pro forma results are not intended to be a projection of future results.

On March 5, 2002, the Company acquired Harmon, a health and beauty care retailer, which did not have a material effect on its consolidated results of operations or financial condition in fiscal 2004, 2003 or 2002.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

(in thousands)	**February 26, 2005**	February 28, 2004
Land and buildings	**$ 43,165**	$ 28,189
Furniture, fixtures and equipment	**452,919**	387,517
Leasehold improvements	**405,928**	333,502
Computer equipment and software	**184,626**	146,999
	1,086,638	896,207
Less: Accumulated depreciation and amortization	**(477,007)**	(380,043)
	$ 609,631	$ 516,164

4. LINES OF CREDIT

At February 26, 2005, the Company maintained two uncommitted lines of credit of $100 million and $50 million, with expiration dates of September 3, 2005 and February 28, 2005, respectively. Subsequent to the end of fiscal 2004, the Company increased the amount of the $50 million uncommitted line of credit to $75 million and extended the expiration to February 28, 2006. These uncommitted lines of credit are currently used for letters of credit in the ordinary course of business. It is the Company's intent to maintain an uncommitted line of credit for this purpose. During fiscal 2004, the Company did not have any direct borrowings under the uncommitted lines of credit. As of February 26, 2005, there was approximately $13.4 million of outstanding letters of credit. In addition, under the above uncommitted lines of credit, the Company can obtain unsecured standby letters of credit. As of February 26, 2005, there was approximately $38.1 million of outstanding unsecured standby letters of credit, primarily for certain insurance programs.

The Company maintained two uncommitted lines of credit of $75 million and $50 million at February 28, 2004. These uncommitted lines of credit were utilized for letters of credit in the ordinary course of business. During fiscal 2003, the Company did not have any direct borrowings under the uncommitted lines of credits. As of February 28, 2004, there was approximately $15.0 million of outstanding letters of credit. In addition, the Company maintained unsecured standby letters of credit of $40 million, primarily for certain insurance programs, of which approximately $35.8 million was outstanding.

5. INVESTMENT SECURITIES

The Company's investment securities consist of available-for-sale auction rate securities, which are stated at cost or par value which approximates fair value, and held-to-maturity U.S. Government Agency debt securities and municipal debt securities, which are stated at amortized cost. The amortized cost and fair value of the Company's available-for-sale and held-to-maturity securities are as follows:

	February 26, 2005		February 28, 2004	
(in millions)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Available-for-sale securities:				
Short term	**$360.8**	**$360.8**	$553.5	$553.5
Long term	**14.9**	**14.9**	12.4	12.4
	375.7	**375.7**	565.9	565.9
Held-to-maturity securities:				
Short term	**268.5**	**266.9**	18.6	18.6
Long term	**309.3**	**307.1**	198.4	199.1
	577.8	**574.0**	217.0	217.7
Total investment securities	**$953.5**	**$949.7**	$782.9	$783.6

Those investment securities with contractual maturity dates or interest reset dates within one year are classified as short term investment securities. All other investment securities are classified as long term investment securities. The contractual maturity dates of held-to-maturity investment securities extend to January 2018 and the available-for-sale investment securities do not have stated contractual maturities due to the nature of the investment vehicle. Actual maturities could differ from contractual maturities because borrowers have the right to call certain obligations.

As of February 26, 2005, the Company had gross unrecognized holding losses of $3.9 million relating to held-to-maturity investment securities with fair values totaling $567.9 million. None of these investment securities have been in a continuous unrecognized loss position for more than 12 months. Unrecognized holding losses typically will not result in a recognized expense if the underlying securities are held to maturity as intended. As of February 28, 2004, there were no material gross unrecognized holding losses. Gross unrecognized holding gains relating to held-to-maturity investment securities were not material as of February 26, 2005 and February 28, 2004. As of February 26, 2005 and February 28, 2004, the Company had no cumulative unrecognized holding gains or losses relating to its available-for-sale investment securities.

6. PROVISION FOR INCOME TAXES

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

	FISCAL YEAR		
(in thousands)	**2004**	2003	2002
Current:			
Federal	**$281,200**	$230,124	$184,055
State and local	**20,967**	23,012	18,405
	302,167	253,136	202,460
Deferred:			
Federal	**2,715**	(2,783)	(12,083)
State and local	**1,341**	(278)	(1,208)
	4,056	(3,061)	(13,291)
	$306,223	$250,075	$189,169

On October 22, 2004, the American Job Creation Act of 2004 (the "Act") was signed into law. The Act contains numerous amendments and additions to the U.S. corporate income tax rules. None of these changes, either individually or in the aggregate, is expected to have a significant impact on the Company's income tax liability.

At February 26, 2005 and February 28, 2004, included in other current assets and in deferred rent and other liabilities is a net current deferred income tax asset of $70.1 million and $74.3 million, respectively, and a net noncurrent deferred income tax liability of $16.3 million and $16.4 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)	**February 26, 2005**	February 28, 2004
Deferred Tax Assets:		
Inventories	**$26,207**	$25,003
Deferred rent and other rent credits	**20,348**	12,627
Insurance	**24,518**	25,103
Other	**36,705**	45,569
Deferred Tax Liabilities:		
Depreciation	**(46,126)**	(43,260)
Other	**(7,817)**	(7,151)
	$53,835	$57,891

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, the deductibility of future net deferred tax liabilities and tax planning strategies.

For fiscal 2004, 2003 and 2002, the effective tax rate is comprised of the Federal statutory income tax rate of 35.00% in each fiscal year, the State income tax rate, net of Federal benefit, of 2.60% for fiscal 2004, 3.50% for fiscal 2003 and 2002, and other income tax effects of 0.15% for fiscal 2004.

7. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

A. In fiscal 2002, the Company had an interest in certain life insurance policies on the lives of its Co-Chairmen and their spouses. The beneficiaries of these policies were related to the aforementioned individuals. The Company's interest in these policies was equivalent to the net premiums paid by the Company. Since the Company is no longer permitted to pay policy premiums due to restrictions in the Sarbanes-Oxley Act of 2002, 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 February 26, 2005 and February 28, 2004.

B. The Company made charitable contributions to the Mitzi and Warren Eisenberg Family Foundation, Inc. (the "Eisenberg Foundation") and the Feinstein Family Foundation, Inc. (the "Feinstein Foundation") in the aggregate amount of $913,000 in fiscal 2002. The Eisenberg Foundation and the Feinstein Foundation are each not-for-profit corporations of which Messrs. Eisenberg and Feinstein, the Co-Chairmen of the Company, and their family members are the trustees and officers. The Company made no contributions in fiscal 2004 and 2003.

C. In fiscal 2004, the Company leased office and retail space from entities controlled by management of CTS. In fiscal 2003, the Company leased warehouse, office and retail space from such entities. Since the acquisition of Harmon through November 15, 2004, the Company leased warehouse and office space from an entity controlled by management of Harmon. The Company paid such entities occupancy costs of approximately $6,902,000, $4,721,000 and $461,000 in fiscal 2004, 2003 and 2002, respectively.

8. LEASES

The Company leases retail stores, as well as warehouses, office facilities 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 2004, 2003 and 2002), 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 February 26, 2005, future minimum lease payments under noncancelable operating leases are as follows:

Fiscal Year *(in thousands)*	Amount
2005	$ 308,698
2006	322,034
2007	316,674
2008	308,370
2009	289,813
Thereafter	1,438,176
Total future minimum lease payments	$2,983,765

Expenses for all operating leases were $288.9 million, $251.0 million and $219.8 million for fiscal 2004, 2003 and 2002, respectively.

9. EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company has three defined contribution 401(k) savings plans (the "Bed Bath & Beyond Plan", the "Harmon Plan" and the "Christmas Tree Shops Plan", collectively "the Plans") covering all eligible Bed Bath & Beyond, Harmon and CTS employees, respectively. Effective December 31, 2003, the Harmon Plan was frozen. Eligible employees of Harmon can now participate in the Bed Bath & Beyond Plan. Participants of the Bed Bath & Beyond Plan and the Christmas Tree Shops Plan may defer annual pre-tax compensation up to 30% and 60%, respectively, subject to statutory and Plan limitations. The Company has an option to contribute an amount as determined by the Board of Directors to the Plans. The Company has not made a material contribution to any plan for fiscal 2004, 2003 or 2002.

Defined Benefit Plan

The Company has a non-contributory defined benefit pension plan for the CTS employees who meet specified age and length-of-service requirements. The benefits are based on years of service and the employee's compensation near retirement. The Company utilizes a December 31 measurement date for this plan. For the years ended February 26, 2005 and February 28, 2004, the net periodic pension cost was not material to the Company's results of operations. The Company has a $7.5 million and $8.3 million liability, which is included in deferred rent and other liabilities as of February 26, 2005 and February 28, 2004, respectively.

10. COMMITMENTS AND CONTINGENCIES

The Company maintains employment agreements with its Co-Chairmen, which extend through 2007. The agreements provide for a base salary (which may be increased by the Board of Directors), termination payments, post-retirement benefits and other terms and conditions of employment. In addition, the Company maintains employment agreements with other executives which provide for severance pay.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, 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.

11. SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid income taxes of $229.0 million, $226.7 million and $151.8 million in fiscal 2004, 2003 and 2002, respectively.

12. STOCK OPTION AND INCENTIVE PLANS

During fiscal 2004, the Company adopted the Bed Bath & Beyond 2004 Incentive Compensation Plan ("the 2004 Plan"). The 2004 Plan is a flexible compensation plan that enables the Company to offer incentive compensation through stock options, stock appreciation rights, restricted stock awards and performance awards, including cash awards. Prior to fiscal 2004, the Company had adopted various stock option plans (the "Prior Plans"), all of which solely provided for the granting of stock options. Upon adoption of the 2004 Plan, the common stock available under the Prior Plans became available for issuance under the 2004 Plan. No further option grants may be made under the Prior Plans, although outstanding awards under the Prior Plans will continue to be in effect.

Under the 2004 Plan and the Prior Plans, an aggregate of 83.4 million shares of common stock were authorized for issuance. Under all plans, option grants are issued at market value on the date of grant and generally become exercisable in five equal annual installments beginning one to three years from the date of grant. Option grants for stock options issued prior to May 10, 2004 expire ten years after the date of grant. Since May 10, 2004, option grants expire eight years after the date of grant. All option grants are non-qualified.

The Stock Option and Compensation committees determine the number of shares and the price per share for all awards granted under the plans. As of February 26, 2005, no awards other than stock options had been granted by the Company. See Note 14, Revised Approach to Compensation, regarding awards granted subsequent to fiscal 2004.

The following table summarizes stock option transactions:

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at March 2, 2002	23,117,008	$12.80
Options granted	4,335,000	31.95
Options exercised	(2,989,255)	8.09
Options canceled	(626,008)	20.45
Outstanding at March 1, 2003	23,836,745	16.66
Options granted	5,655,975	35.28
Options exercised	(5,848,349)	12.75
Options canceled	(609,865)	27.46
Outstanding at February 28, 2004	23,034,506	21.92
Options granted	5,216,770	37.01
Options exercised	(2,546,501)	12.12
Options canceled	(869,323)	32.68
Outstanding at February 26, 2005	**24,835,452**	**$25.73**
Options exercisable:		
At March 1, 2003	8,404,205	$11.20
At February 28, 2004	6,706,123	$12.45
At February 26, 2005	**8,249,646**	**$16.80**

The following table summarizes information pertaining to stock options outstanding and exercisable at February 26, 2005:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$ 2.37 to 2.37	196,460	0.14	$ 2.37	196,460	$ 2.37
3.83 to 5.01	433,560	1.35	4.89	433,560	4.89
6.11 to 8.94	1,014,810	2.16	6.52	1,014,810	6.52
9.70 to 14.19	4,726,312	4.29	11.58	2,650,192	11.60
14.77 to 22.06	2,586,795	4.68	16.52	1,667,535	16.21
23.06 to 30.73	4,393,355	7.09	27.44	800,776	24.68
31.40 to 33.98	3,645,420	7.10	31.81	832,600	31.88
34.63 to 38.19	3,457,790	7.25	35.11	52,960	35.77
38.22 to 43.40	4,380,950	8.45	39.83	600,753	39.04
$ 2.37 to 43.40	**24,835,452**	**6.21**	**$25.73**	**8,249,646**	**$16.80**

13. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

(in thousands, except per share data)	FISCAL 2004 QUARTER ENDED May 29, 2004	August 28, 2004	November 27, 2004	February 26, 2005
Net sales	$1,100,917	$1,273,960	$1,305,155	$1,467,646
Gross profit	456,774	530,829	548,152	650,546
Operating profit	128,707	189,108	190,978	283,621
Earnings before provision for income taxes	131,805	192,784	195,867	290,731
Provision for income taxes	49,756	72,776	73,940	109,751
Net earnings	$ 82,049	$ 120,008	$ 121,927	$ 180,980
EPS-Basic (1)	$ 0.27	$ 0.40	$ 0.40	$ 0.60
EPS-Diluted (1)	$ 0.27	$ 0.39	$ 0.40	$ 0.59

(in thousands, except per share data)	FISCAL 2003 QUARTER ENDED May 31, 2003	August 30, 2003	November 29, 2003	February 28, 2004
Net sales	$893,868	$1,111,445	$1,174,740	$1,297,928
Gross profit	367,180	459,145	486,987	563,352
Operating profit	90,450	155,867	161,459	231,567
Earnings before provision for income taxes	93,509	158,062	163,424	234,550
Provision for income taxes	36,001	60,854	62,918	90,302
Net earnings	$ 57,508	$ 97,208	$ 100,506	$ 144,248
EPS-Basic (1)	$ 0.19	$ 0.33	$ 0.34	$ 0.48
EPS-Diluted (1)	$ 0.19	$ 0.32	$ 0.33	$ 0.47

(1) Net earnings per share ("EPS") amounts for each quarter are required to be computed independently and may not equal the amount computed for the total year.

14. REVISED APPROACH TO COMPENSATION

On April 20, 2005, the Compensation Committee made awards to executive officers and other executives reporting to the Company's Chief Executive Officer consisting of a combination of restricted stock and stock option grants. Consistent with past practice, the stock options granted to these executives will vest over time, subject, in general, to the executive's remaining in the Company's employ on specified vesting dates. Vesting of the restricted stock awarded to these executives will be dependent on (i) the Company's achievement of a performance-based test for the fiscal year of grant, and (ii) assuming achievement of the performance-based test, time vesting, subject, in general, to the executive remaining in the Company's employ on specified vesting dates.

The Company's other employees who traditionally have received stock option grants have begun to receive awards consisting solely of restricted stock. Vesting of the restricted stock awarded to these employees will be based solely on time vesting with no performance test. The Company will record an expense related to the restricted stock program in fiscal 2005 in accordance with APB No. 25.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Bed Bath & Beyond Inc.:

We have audited the accompanying consolidated balance sheets of Bed Bath & Beyond Inc. and subsidiaries as of February 26, 2005 and February 28, 2004, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended February 26, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bed Bath & Beyond Inc. and subsidiaries as of February 26, 2005 and February 28, 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended February 26, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Bed Bath & Beyond Inc. and subsidiaries' internal control over financial reporting as of February 26, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 11, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

New York, New York
May 11, 2005

DIRECTORS AND OFFICERS

Bed Bath & Beyond Inc. and Subsidiaries

DIRECTORS

Warren Eisenberg
Co-Chairman,
Bed Bath & Beyond Inc.

Leonard Feinstein
Co-Chairman,
Bed Bath & Beyond Inc.

Steven H. Temares
President and Chief Executive Officer,
Bed Bath & Beyond Inc.

Dean S. Adler
Principal, Lubert-Adler Management
Philadelphia, Pennsylvania

Stanley F. Barshay
Chairman, Schering-Plough Consumer
HealthCare Products
Berkeley Heights, New Jersey

Klaus Eppler
Pensioned Partner, Proskauer Rose LLP
New York, New York

Jordan Heller
Partner, The Schonbraun McCann Group LLC
Roseland, New Jersey

Robert S. Kaplan
Vice Chairman, The Goldman Sachs Group, Inc.
New York, New York

Victoria A. Morrison
Partner, Riker, Danzig, Scherer,
Hyland & Perretti LLP
Morristown, New Jersey

Fran S. Stoller
Partner, Loeb & Loeb LLP
New York, New York

OFFICERS

Warren Eisenberg
Co-Chairman

Leonard Feinstein
Co-Chairman

Steven H. Temares
President and Chief Executive Officer

Ronald Curwin
Chief Financial Officer and Treasurer

Arthur Stark
Chief Merchandising Officer and
Senior Vice President

Matthew Fiorilli
Senior Vice President – Stores

Eugene A. Castagna
Vice President – Finance and Assistant
Treasurer

Richard C. McMahon
Vice President – Supply Chain and Chief
Information Officer

Allan N. Rauch
Vice President – Legal and General Counsel

G. William Waltzinger, Jr.
Vice President – Bed Bath & Beyond Inc.
Corporate Development
President – Harmon Stores, Inc.

Chuck Bilezikian
Chief Executive Officer – Christmas Tree
Shops, Inc.

Donna Steele
President – Christmas Tree Shops, Inc.

Michael Honeyman
Chief Operating Officer – Christmas Tree
Shops, Inc.

Doreen Bilezikian
Executive Vice President – Christmas Tree
Shops, Inc.

Jim Brendle
Vice President – Construction and
Store Development

P. Timothy Brewster
Vice President – Stores – N.Y.C. Region

Michael J. Callahan
Vice President – Corporate Counsel

Elise Contarsy
Vice President and General Merchandise
Manager – Product Development
and Branding

Martin Eisenberg
Vice President – Stores – Northeast Region

Alan M. Freeman
Vice President – Real Estate Counsel

Seth D. Geldzahler
Vice President – Real Estate

Scott Hames
Vice President and General Merchandise
Manager – Planning and Allocation

Alan Jacobson
Vice President – Stores – Western Region

Todd Johnson
Chief Merchandising Officer – Christmas
Tree Shops, Inc.

Nancy J. Katz
Vice President and General Merchandise
Manager – Hardlines

Edward Kopil
Vice President – Stores – Southern Region

Susan E. Lattmann
Vice President – Controller

Nancy Lehotay
Vice President – Customer Service

Rita Little
Vice President – Marketing

Martin Lynch
Vice President – Stores – Harmon Stores, Inc.

Jeffrey W. Macak
Vice President – Supply Chain Logistics

John Mariani
Vice President – Store Systems

Teresa A. Miller
Vice President – Purchasing

Stephen J. Murray
Vice President – Information Technology

Farley S. Nachemin
Vice President and General Merchandise
Manager – Bath and Seasonal

Alan J. Natowitz
Vice President and General Merchandise
Manager – Bedding and Window

William Onksen
Vice President – Stores – MidAtlantic
and Midwest Regions

Christine R. Pirog
Vice President – Store Operations

William T. Plate
Vice President – Loss Prevention, Safety
and Asset Management

Joseph P. Rowland
Vice President – E-Service Operations

Hal R. Shapiro
Vice President – Tax

Concetta Van Dyke
Vice President – Human Resources

Kevin M. Wanner
Vice President – Technology and Operations

CORPORATE AND SHAREHOLDER INFORMATION

Corporate Office

Bed Bath & Beyond Inc.
Harmon Stores, Inc.
650 Liberty Avenue
Union, New Jersey 07083
Telephone: 908/688-0888

Christmas Tree Shops, Inc.
261 White's Path
South Yarmouth, Massachusetts 02664
Telephone: 508/394-1225

Bed Bath & Beyond Procurement Co. Inc.
110 Bi-County Boulevard, Suite 114
Farmingdale, New York 11735
Telephone: 631/420-7050

Shareholder Information

A copy of the Company's 2004 Form 10-K as filed with the Securities and Exchange Commission ("SEC") may be obtained from the Investor Relations Department at the Corporate Office.
Fax: 908/810-8813

The Company provides access to the documents filed with the SEC through the Investor Relations section of our website, www.bedbathandbeyond.com. A copy of the Company's Policy of Ethical Standards for Business Conduct is also provided at this location.

Stock Listing

NASDAQ National Market Trading symbol BBBY.

Annual Meeting

The Annual Meeting of Shareholders will be held at 9:00 a.m. June 30, 2005, at the Madison Hotel, One Convent Road, Morristown, New Jersey.

Stock Activity

The following table sets forth by fiscal quarter the high and low reported closing prices of the Company's Common Stock on the NASDAQ National Market during fiscal 2004 and fiscal 2003:

Quarter	High	Low
Fiscal 2004		
First	**$ 41.90**	**$ 35.39**
Second	**39.75**	**33.89**
Third	**44.09**	**36.72**
Fourth	**41.58**	**36.99**
Fiscal 2003		
First	$ 41.79	$ 30.30
Second	43.80	37.10
Third	43.35	38.27
Fourth	43.35	39.00

At May 5, 2005, there were approximately 1,876 shareholders of record. This number excludes individual shareholders holding stock under nominee security position listings.

Transfer Agent

The Transfer Agent should be contacted on questions of change of address, name or ownership, lost certificates and consolidation of accounts.

American Stock Transfer & Trust Company
40 Wall Street, 46th Floor
New York, New York 10005
Telephone: 800/937-5449

Independent Auditors

KPMG LLP
345 Park Avenue
New York, New York 10154

Websites

www.bedbathandbeyond.com
www.harmondiscount.com
www.christmastreeshops.com

STORE LOCATIONS

(as of February 26, 2005)

BED BATH & BEYOND

Alabama	8	Nebraska	2
Arizona	12	Nevada	5
Arkansas	3	New Hampshire	6
California	75	New Jersey	28
Colorado	16	New Mexico	3
Connecticut	12	New York	42
Delaware	1	North Carolina	18
Florida	51	North Dakota	2
Georgia	19	Ohio	26
Idaho	3	Oklahoma	4
Illinois	29	Oregon	8
Indiana	14	Pennsylvania	25
Iowa	6	Rhode Island	3
Kansas	7	South Carolina	12
Kentucky	5	Tennessee	14
Louisiana	10	Texas	55
Maine	2	Utah	9
Maryland	15	Vermont	1
Massachusetts	14	Virginia	21
Michigan	27	Washington	15
Minnesota	9	Wisconsin	7
Mississippi	3		
Missouri	10	Puerto Rico	3
		Total	**660**

For exact Bed Bath & Beyond locations, visit us at www.bedbathandbeyond.com or call 1-800-GO BEYOND.

CHRISTMAS TREE SHOPS

Connecticut	3
Maine	1
Massachusetts	14
New Hampshire	2
New York	3
Rhode Island	2
Vermont	1
Total	**26**

For exact Christmas Tree Shops locations, visit us at www.christmastreeshops.com.

HARMON

Connecticut	2
New Jersey	25
New York	8
Total	**35**

For exact Harmon locations, visit us at www.harmondiscount.com.

BED BATH &
BEYOND
Beyond any store of its kind.®

www.bedbathandbeyond.com
Beyond any site of its kind.®

650 Liberty Avenue
Union, NJ 07083
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