2003

2003 Annual Report • Notice of Annual Meeting • Proxy Statement

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

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Beyond any site of its kind.®

gratitude \ n: the state of being grateful: THANKFULNESS...

To Our Fellow Shareholders:

Most years, we conclude our annual letter with a brief statement of appreciation for those whose efforts and support have led to the results we have been so honored to present. While it has never been an afterthought, as we write our letter this year, gratitude is firmly on the front of our minds. And so we place it firmly in front of you.

1. We thank our associates for their constant efforts to improve the experience of our customers and improve our Company.
2. We thank our customers, not only for responding favorably to our offerings, but also for speaking up when we need to improve.
3. We thank our business partners, whose vision and support continue to be fundamental to our success.
4. We thank our shareholders for their continued confidence in our Company.

One more all important word about gratitude. As we mentioned last year, many of us at Bed Bath & Beyond have friends, colleagues or family members in active military service. While we work on improving our Company, there is much more important work being done by them and others to keep us safe and maintain our way of life. We are humbled by their sacrifices, eternally grateful for their superior efforts, and proud to be called their brethren. To them, and those who came before them who protected freedom, we are forever thankful. They are in our thoughts and prayers.

Continued on page 1

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

	Fiscal Year Ended [1]											
	Feb. 28, 2004	**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	$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	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	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	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 [2]	$ 1.31	$ 1.00	$ .74	$ .59	$ .46	$ .34	$ .26	$ .20	$ .14	$ .11	$ .08	$ .06
SELECTED OPERATING DATA												
Number of stores open (at period end)	629	519	396	311	241	186	141	108	80	61	45	38
Total square feet of store space (at period end)	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	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	$1,199,752	$ 914,220	$ 715,439	$ 532,524	$ 360,585	$ 267,557	$ 188,293	$ 127,333	$ 91,331	$ 74,390	$ 56,001	$ 34,842
Total assets	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	$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) 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.

To Our Fellow Shareholders: *Continued from front cover*

On the following pages, we discuss some of the highlights from our recently completed fiscal 2003 and provide you with the information you need in connection with our upcoming Annual Meeting. Before we get to that, we wanted to acknowledge the favorable shareholder response to our efforts over the last few years in making this annual presentation clearer, more effective, and more cost efficient. We invited your input last year and we appreciate all the comments we received. With your ongoing support, our efforts to reduce Annual Meeting expense continue:

- **We have taken a further slight reduction in paper weight for this year's Annual Report, Notice of Annual Meeting and Proxy Statement, believing that what is on the paper, not the paper itself, is what matters.**
- **We are urging our shareholders again to vote their proxies by internet or telephone, which saves us mailing expense. Information on these options appears on page 2.**
- **We are also repeating our request that shareholders elect to receive future annual reports and proxies by the internet if they are able to do so. Information on this option also appears on page 2.**

Our goal is to present you our annual information in as straightforward and cost efficient a manner as possible.

What we have to tell in these pages is the story of our 33rd year of operations, the last 12 as a public company. As much as the essence of the story seems to be the same year after year, outstanding financial performance combined with a dynamic and growing organization, we continue to evolve. This past fiscal year brought us a new Chief Executive Officer, Steven Temares, who as President and Chief Operating Officer had been responsible for the day-to-day operations of the Company since 1997. It has brought three new, highly talented, independent members to our Board of Directors, Stanley F. Barshay, Fran Stoller and Jordan Heller, who will be more formally introduced to you in our Proxy Statement which follows. It has brought into our family the exciting and energetic merchant culture of Christmas Tree Shops: a culture which, over 30 years, has translated into a store experience that has created a phenomenal level of customer satisfaction and loyalty. We are thrilled to have the talent and dedication of the Christmas Tree Shops team added to that of our existing Bed Bath & Beyond and Harmon associates. We believe the whole is definitely greater than the sum of its parts.

The results of our fiscal 2003 have recently placed us, for the first time, in the ranks of the Fortune 500. The significance of this is highlighted by 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 12 years as a public company. At the end of our first fiscal year as a public company, in February 1993, we had 38 stores and net earnings were $16.0 million on net sales of $216.4 million.

For comparison, here are some of the highlights from fiscal 2003:

- **Net earnings for the year ended February 28, 2004 totaled $399.5 million ($1.31 per share), exceeding fiscal 2002 net earnings of $302.2 million ($1.00 per share) by approximately 32.2%.**
- **Net sales for fiscal 2003 were $4.478 billion, an increase of approximately 22.2% from the prior year.**
- **Comparable store sales for fiscal 2003 increased by approximately 6.3%.**
- **During fiscal 2003, we opened 85 new Bed Bath & Beyond stores. As you might recall, several stores which were expected to open in fiscal 2003 were actually opened earlier, as part of the 95 that we opened in fiscal 2002. We also opened one Christmas Tree Shops store and one Harmon store in fiscal 2003. We ended the year with 575 Bed Bath & Beyond stores in 44 states and Puerto Rico, 30 Harmon stores in 3 states, and 24 Christmas Tree Shops stores in 6 states.**
- **At the close of fiscal 2003, cash and investments exceeded $1 billion.**
- **Shareholders' equity at year-end was approximately $2 billion.**

You can see from the chart to the left of this page that we have been reporting growth of this nature for our entire time as a public company, and each year at this time we credit our culture and say that we are never satisfied. The two are linked. No one ever professes to a corporate culture of sub-par performance, but in a way ours is something like that: it is an acute awareness of failure, of the many things we can do better every day. What is it that we have to do better today than yesterday? Everything. The numbers are what they are, and we are proud of the accomplishments they represent, but we are ever mindful of what we still have left to do. It has to be that way.

So, you see those numbers to the left? If you look at them and are pleased, that is good, because we are pleased with them as well and enormously appreciative of the efforts of all our associates that went into producing them. If you look at those numbers and see the opportunity for continued growth and improvement, congratulations. You are one of us.

In keeping with this focus forward, here are some of our current thoughts on the coming year. For fiscal 2004, we currently plan to open new Bed Bath & Beyond, Harmon and Christmas Tree Shops stores. We intend to expand our health and beauty care and fine china initiatives to additional Bed Bath & Beyond stores. We continue to execute on a multitude of initiatives across the business, from merchandising to opportunities in systems and technology, all with the view to better our Company. If we maintain our focus on our customer, on fixing our failures and improving our successes, we should make 2004 another record year.

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

May 28, 2004

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, the Forbes 500 and the Business Week 50.

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 *SAVES YOUR COMPANY MONEY*

This proxy statement and the 2003 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

In fiscal 2003, the Company's consolidated net sales increased by 22.2% and net earnings increased by 32.2%. Contributing to this increase was the expansion of Bed Bath & Beyond ("BBB") store space by 12.2%, from 17,255,000 square feet at fiscal year end 2002 to 19,353,000 square feet at fiscal year end 2003. The 2,098,000 square feet increase was primarily the result of opening 85 new BBB stores and relocating two existing stores. In fiscal 2002, the Company expanded BBB store space by 17.2%, or 2,531,000 square feet, from 14,724,000 square feet at fiscal year end 2001. The 2,531,000 square feet increase was the result of opening 95 new stores offset by the closing of one small store.

Also contributing to these increases in fiscal 2003 and 2002 were two acquisitions made by the Company. In June 2003, the Company acquired Christmas Tree Shops, Inc. ("CTS") for approximately $194.4 million, net of cash acquired, plus the costs of the acquisition, which includes $175.5 million of cash and $18.9 million in deferred payments payable in cash over the next three years. CTS is a retailer of giftware and household items selling a broad assortment of domestics merchandise and home furnishings at low 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. In March 2002, the Company acquired Harmon Stores, Inc. ("Harmon"), a health and beauty care retailer, for approximately $24.1 million, net of cash acquired. Harmon's results of operations are included in the Company's consolidated results of operations since the date of acquisition. On a combined basis, CTS and Harmon store space totaled 1,119,000 square feet at February 28, 2004.

Comparable store sales for fiscal 2003 increased by approximately 6.3% as compared with an increase of approximately 7.9% and 7.1% in fiscal 2002 and 2001, respectively. The fiscal 2003 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, a strong focus on customer service and the continued success of the Company's advertising program.

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 28, 2004	March 1, 2003	March 2, 2002	**February 28, 2004**	March 1, 2003
Net sales	**100.0%**	100.0%	100.0%	**22.2%**	25.2%
Cost of sales	**58.1**	58.6	58.8	**21.2**	24.8
Gross profit	**41.9**	41.4	41.2	**23.6**	25.8
Selling, general and administrative expenses	**27.6**	28.3	29.4	**19.1**	20.5
Operating profit	**14.3**	13.1	11.8	**33.2**	38.7
Earnings before provision for income taxes	**14.5**	13.4	12.2	**32.2**	37.6
Net earnings	**8.9**	8.2	7.5	**32.2**	37.6

Net Sales

Net sales in fiscal 2003 increased $812.8 million to $4.478 billion, representing an increase of 22.2% over the $3.665 billion of net sales in fiscal 2002, which increased $737.2 million or 25.2% over net sales of $2.928 billion in fiscal 2001. Approximately 41% of the increase in fiscal 2003 was attributable to BBB new store sales and 34% of the increase was attributable to the net sales of CTS, which was acquired in June 2003. The increase in comparable store sales for fiscal 2003 of 6.3% was due to a number of factors, including but not limited to, the continued consumer acceptance of the Company's merchandise offerings, a strong focus on customer service and the continued success of the Company's advertising program. For fiscal 2002, new store sales contributed approximately 68% to the increase in net sales and the balance to an increase in comparable store sales and the acquisition of Harmon in March 2002.

Sales of domestics merchandise accounted for approximately 51%, 55% and 54% of net sales in fiscal 2003, 2002 and 2001, respectively, of which the Company estimates that bed linens accounted for approximately 16%, 19% and 19% of net sales in fiscal 2003, 2002 and 2001, respectively. The remaining net sales in fiscal 2003, 2002 and 2001 of 49%, 45% and 46%, respectively, represented sales of home furnishings. The change in the product mix between fiscal 2003 and 2002 is primarily the result of the acquisition of CTS. No other individual product category accounted for 10% or more of net sales during fiscal 2003, 2002 or 2001.

Gross Profit

Gross profit in fiscal 2003, 2002 and 2001 was $1.877 billion or 41.9% of net sales, $1.519 billion or 41.4% of net sales and $1.208 billion or 41.2% of net sales, respectively. 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. The slight increase in gross profit between fiscal 2002 and 2001 was the result of improvements in markup on the mix of product purchased in fiscal 2002 offset by the relative increase in markdowns recorded in fiscal 2002 as compared to fiscal 2001.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") were $1.237 billion or 27.6% of net sales in fiscal 2003 compared to $1.038 billion or 28.3% of net sales in fiscal 2002. The decrease in SG&A as a percentage of net sales primarily reflects a decrease in occupancy costs, other store expenses and costs associated with new store openings, partially offset by an increase in litigation expense and net advertising costs. Store opening and expansion costs are charged to earnings as incurred.

SG&A as a percentage of net sales decreased to 28.3% in fiscal 2002 from 29.4% in fiscal 2001 primarily as a result of a decrease in occupancy costs and costs associated with new store openings, partially offset by an increase in payroll and payroll related items. SG&A in fiscal 2002 was $1.038 billion as compared to $861.5 million in fiscal 2001.

Interest Income

Interest income decreased to $10.2 million in fiscal 2003 compared to $11.3 million in fiscal 2002 due to a decrease in the average investment interest rate partially offset by an increase in cash invested. However, interest income increased in fiscal 2002 from $11.0 million in fiscal 2001 due to the increase in invested cash partially offset by a decrease in the average investment rate.

Income Taxes

The effective tax rate was 38.5% for fiscal 2003, 2002 and 2001 due to the weighted average effective tax rate remaining consistent in the states and territory in which the Company currently conducts business.

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 twelve year period from the beginning of fiscal 1992 to the end of fiscal 2003, the chain has grown from 34 to 575 BBB stores. Total BBB stores' square footage grew from 917,000 square feet at the beginning of fiscal 1992 to 19,353,000 square feet at the end of fiscal 2003. There were 30 Harmon stores with 204,000 square feet at the end of fiscal 2003. There were 24 CTS stores with 915,000 square feet at the end of fiscal 2003.

The Company intends to continue its expansion program and currently plans to open new BBB, Harmon and CTS stores in fiscal 2004 (see details under "Liquidity and Capital Resources" below). The Company believes that a predominant portion of any increase in its net sales in fiscal 2004 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 2003 was $548.4 million, compared with $419.3 million in fiscal 2002. The increase in net cash provided by operating activities was primarily attributable to an increase in net income, an increase in the tax benefit received from the exercise of stock options and improved management of working capital, partially offset by a decrease in income taxes payable due to an increase in tax payments.

Net cash used in investing activities in fiscal 2003 was $292.5 million compared with $357.4 million in fiscal 2002. The change in net cash used in investing activities was primarily attributable to an increase in the redemption of investment securities partially offset by the acquisition of CTS. The aggregate all cash purchase price of CTS, including the cost of the acquisition, was approximately $194.4 million, net of cash acquired, which includes $175.5 million of cash and $18.9 million in deferred payments payable in cash over the next three years. The acquisition has been accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations."

Net cash provided by financing activities in fiscal 2003 was $53.4 million, compared with $24.2 million in fiscal 2002. The change in net cash provided by financing activities was attributable to an increase in proceeds from the exercise of stock options partially offset by the prepayment of CTS' debt in conjunction with the acquisition.

At February 28, 2004, the Company maintained two uncommitted lines of credit of $75 million and $50 million, which expire in September 2004 and November 2004, respectively. 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 these purposes. During fiscal 2003, the Company did not have any direct borrowings under the uncommitted lines of credit. As of February 28, 2004, there was approximately $15.0 million in outstanding letters of credit. In addition, at February 28, 2004, the Company maintained unsecured standby letters of credit of $40 million, primarily for certain insurance programs, of which approximately $35.8 million was outstanding. The Company believes that during fiscal 2004, 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 store, office and other facilities and equipment and purchase obligations which are payable as of February 28, 2004 as follows:

(in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Lease Obligations	$2,727,162	$273,934	$842,674	$514,046	$1,096,508
Purchase Obligations	643,994	643,994	—	—	—
Total Contractual Obligations	$3,371,156	$917,928	$842,674	$514,046	$1,096,508

As of February 28, 2004, the Company has leased sites for 57 new stores planned for opening in fiscal 2004 or 2005, which are included in the table above. Approximate aggregate costs for the 57 leased stores are estimated at $79.9 million for merchandise inventories, $43.1 million for furniture and fixtures and leasehold improvements and $11.8 million for store opening expenses (which will be expensed as incurred).

Purchase obligations consist of purchase orders for merchandise and capital expenditures. Typically, these purchase orders, which are not included in the Company's consolidated balance sheet as of February 28, 2004, allow the Company to cancel the orders without recourse.

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.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to establish accounting policies and to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on other assumptions that it believes to be relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. In particular, 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 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.

Inventory Valuation: Merchandise inventories are stated at the lower of cost or market, generally using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories. In addition, the Company estimates a reserve for expected shrinkage throughout the year, based on historical shrinkage. Actual shrinkage is recorded at year-end based on the results of the Company's physical inventory count. At any one time, inventories include items that have been marked down to the Company's best estimate of their fair market value. Actual markdowns required could differ from this estimate.

Impairment of Long-Lived Assets: The Company reviews long-lived assets for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flows 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 present value of the estimated net cash flows. The Company does not believe that any material impairment currently exists related to its long-lived assets.

Goodwill and Other Indefinitely Lived Intangible Assets: The Company reviews goodwill and other intangibles that have indefinite lives for impairment annually and otherwise 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 does not believe that any material impairment currently exists related to its goodwill and indefinitely lived intangible assets.

Vendor Allowances: The Company receives various types of allowances from our merchandise vendors, which are based on negotiated terms. These allowances are recorded when earned as a reduction of cost of sales or as a reduction of other costs in accordance with the provisions of the FASB's Emerging Issues Task Force Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor."

Self Insurance: The Company uses self insurance for a number of risks including worker's compensation, general liability, automobile liability and employee related health care benefits (a portion of which is paid by our employees). Liabilities associated with these risks are estimated by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions.

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.

Store Opening, Expansion, Relocation and Closing Costs: Store opening, expansion, relocation and closing 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 reasonable 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 28, 2004**	March 1, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 825,015**	$ 515,670
Short term investment securities	**41,580**	100,927
Merchandise inventories	**1,012,334**	915,671
Other current assets	**90,357**	62,123
Total current assets	**1,969,286**	1,594,391
Long term investment securities	**210,788**	148,005
Property and equipment, net	**516,164**	423,907
Goodwill	**147,269**	15,556
Other assets	**21,516**	6,983
	$2,865,023	$2,188,842
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 398,650**	$ 362,965
Accrued expenses and other current liabilities	**337,039**	246,198
Income taxes payable	**33,845**	71,008
Total current liabilities	**769,534**	680,171
Deferred rent and other liabilities	**104,669**	56,750
Total liabilities	**874,203**	736,921
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 and outstanding - February 28, 2004, 300,278 shares and March 1, 2003, 294,430 shares	**3,003**	2,944
Additional paid-in capital	**433,404**	294,034
Retained earnings	**1,554,413**	1,154,943
Total shareholders' equity	**1,990,820**	1,451,921
	$2,865,023	$2,188,842

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 28, 2004**	March 1, 2003	March 2, 2002
Net sales	**$4,477,981**	$3,665,164	$2,927,962
Cost of sales	**2,601,317**	2,146,617	1,720,396
Gross profit	**1,876,664**	1,518,547	1,207,566
Selling, general and administrative expenses	**1,237,321**	1,038,490	861,466
Operating profit	**639,343**	480,057	346,100
Interest income	**10,202**	11,291	10,972
Earnings before provision for income taxes	**649,545**	491,348	357,072
Provision for income taxes	**250,075**	189,169	137,473
Net earnings	**$ 399,470**	$ 302,179	$ 219,599
Net earnings per share - Basic	**$ 1.35**	$ 1.03	$ 0.76
Net earnings per share - Diluted	**$ 1.31**	$ 1.00	$ 0.74
Weighted average shares outstanding - Basic	**296,854**	292,927	289,877
Weighted average shares outstanding - Diluted	**304,690**	301,147	298,667

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Bed Bath & Beyond Inc. and Subsidiaries

	COMMON STOCK		ADDITIONAL		
(in thousands)	SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
Balance at March 3, 2001	287,890	$2,879	$180,974	$ 633,165	$ 817,018
Net earnings				219,599	219,599
Shares sold under employee stock option plans, including tax benefit	3,551	35	57,698		57,733
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**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Bed Bath & Beyond Inc. and Subsidiaries

	FISCAL YEAR ENDED		
(in thousands)	**February 28, 2004**	March 1, 2003	March 2, 2002
Cash Flows from Operating Activities:			
Net earnings	**$399,470**	$302,179	$219,599
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**84,645**	74,825	62,547
Amortization of bond premium	**1,185**	985	—
Tax benefit from exercise of stock options	**64,832**	31,176	31,980
Deferred income taxes	**(3,061)**	(13,291)	1,733
(Increase) decrease in assets, net of effects of acquisitions:			
Merchandise inventories	**(27,058)**	(145,789)	(147,268)
Other current assets	**(2,055)**	(7,927)	644
Other assets	**5,466**	190	206
Increase (decrease) in liabilities, net of effects of acquisitions:			
Accounts payable	**19,341**	86,144	78,516
Accrued expenses and other current liabilities	**36,628**	52,891	62,123
Income taxes payable	**(37,993)**	20,378	17,450
Deferred rent and other liabilities	**7,042**	17,556	10,426
Net cash provided by operating activities	**548,442**	419,317	337,956
Cash Flows from Investing Activities:			
Purchase of investment securities	**(361,013)**	(368,008)	(51,909)
Redemption of investment securities	**357,020**	170,000	—
Payments for acquisitions, net of cash acquired	**(175,487)**	(24,097)	—
Capital expenditures	**(112,999)**	(135,254)	(121,632)
Net cash used in investing activities	**(292,479)**	(357,359)	(173,541)
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options	**74,597**	24,216	25,753
Prepayment of acquired debt	**(21,215)**	—	—
Net cash provided by financing activities	**53,382**	24,216	25,753
Net increase in cash and cash equivalents	**309,345**	86,174	190,168
Cash and cash equivalents:			
Beginning of period	**515,670**	429,496	239,328
End of period	**$825,015**	$515,670	$429,496

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. (the "Company") operates specialty retail stores nationwide, primarily of a "big box" format and 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 2003, 2002 and 2001 represented 52 weeks and ended on February 28, 2004, March 1, 2003, and March 2, 2002, 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 accounting principles generally accepted in the United States of America requires the Company to establish accounting policies and to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on other assumptions that it believes to be relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. In particular, 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 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

During fiscal 2003, the Company adopted the following pronouncements:

- Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which the obligation is incurred. The adoption of SFAS No. 143 did not have a material impact on the Company's consolidated financial statements.
- SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other items, this Standard updates and clarifies existing accounting pronouncements related to reporting gains and losses from the extinguishment of debt and certain lease modifications that have economic effects similar to sale-leaseback transactions. The adoption of SFAS No. 145 did not have a material impact on the Company's consolidated financial statements.

- Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 elaborates on the disclosures for interim and annual reports regarding obligations under certain guarantees issued by a guarantor. Under FIN No. 45, the guarantor is required to recognize a liability for the fair value of the obligation undertaken in issuing the guarantee at the inception of a guarantee. The recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements for FIN No. 45 are effective for interim and annual financial statements issued after December 15, 2002. The adoption of FIN No. 45 did not have a material impact on the Company's consolidated financial statements.
- During January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. For those arrangements entered into prior to February 1, 2003, the provisions of FIN 46 were required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003. However, in December 2003, the FASB published a revision to FIN 46 to clarify some of the provisions of FIN 46, and to exempt certain entities from its requirements. Under the new guidance, there are new effective dates for companies that have interests in structures that are commonly referred to as special-purpose entities. The rules are effective in financial statements for periods ending after March 15, 2004. The adoption did not have any 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. 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. Inventory Valuation

Merchandise inventories are stated at the lower of cost or market, generally using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories. In addition, the Company estimates a reserve for expected shrinkage throughout the year, based on historical shrinkage. Actual shrinkage is recorded at year-end based on the results of the Company's physical inventory count. At any one time, inventories include items that have been marked down to the Company's best estimate of their fair market value. Actual markdowns required could differ from this estimate.

J. 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 $44.5 million, $34.7 million and $34.3 million for fiscal 2003, 2002 and 2001, respectively.

K. Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flows 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 present value of the estimated net cash flows. The Company does not believe that any material impairment currently exists related to its long-lived assets.

L. Investment Securities

Investment securities consist of U.S. Government Agency debt securities and municipal debt securities. Because the Company has the ability and intent to hold the securities until maturity, it classifies its securities as held-to-maturity. These investment securities are recorded at amortized cost. Premiums are amortized and discounts are accreted over the life of the related held-to-maturity securities as adjustments to interest income using the effective interest method. Dividend and interest income are recognized when earned.

M. Goodwill and Other Indefinitely Lived Intangible Assets

The Company reviews goodwill and other intangibles that have indefinite lives for impairment annually and otherwise 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 does not believe that any material impairment currently exists related to its goodwill and indefinitely lived intangible assets.

Included within other assets in the accompanying consolidated balance sheet as of February 28, 2004 is $19.9 million for the tradename of Christmas Tree Shops, Inc. (“CTS”) (see Note 2 - Acquisitions) which is not subject to amortization.

N. Gift Cards, Gift Certificates and Merchandise Credits

Gift cards, gift certificates and merchandise credits which have not been redeemed are recorded as a liability within accrued expenses and other current liabilities and amounted to an aggregate total of $63.2 million and $44.2 million as of February 28, 2004 and March 1, 2003, respectively.

O. Self Insurance

The Company uses self insurance for a number of risks including worker’s compensation, general liability, automobile liability and employee related health care benefits (a portion of which is paid by our employees). Liabilities associated with these risks are estimated by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions.

P. Deferred Rent

The Company accounts for scheduled rent increases contained in its leases on a straight-line basis over the noncancelable lease term. Deferred rent amounted to $32.7 million and $29.1 million as of February 28, 2004 and March 1, 2003, respectively.

Q. 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.

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.

S. Vendor Allowances

The Company receives various types of allowances from our merchandise vendors, which are based on negotiated terms. These allowances are recorded when earned as a reduction of cost of sales or as a reduction of other costs in accordance with the provisions of the FASB's Emerging Issues Task Force Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor."

T. Cost of Sales

Cost of sales includes the cost of merchandise; certain buying, occupancy, warehouse and indirect costs; shipping and handling costs and free merchandise incentives.

U. Store Opening, Expansion, Relocation and Closing Costs

Store opening, expansion, relocation and closing 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.

V. Advertising Costs

Expenses associated with store advertising are charged to earnings as incurred. Net advertising costs amounted to $93.7 million, $58.8 million and $46.1 million for fiscal 2003, 2002 and 2001, respectively.

W. Income Taxes

The Company files a consolidated Federal income tax return. Separate 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 2003, 2002 and 2001 were not included in the computation of diluted earnings per share as the effect would be anti-dilutive. These consisted of options totaling 543,750, 158,925 and 22,275 shares, respectively.

Y. Stock-Based Compensation

As permitted under SFAS No. 123, "Accounting for Stock Based Compensation" and subsequently amended by 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 No. 25, "Accounting for Stock Issued to Employees." The Company has complied with the disclosure requirements of SFAS No. 123.

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. 123:

	FISCAL YEAR		
(in thousands)	**2003**	2002	2001
NET EARNINGS:			
As reported	**$399,470**	$302,179	$219,599
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	**(29,372)**	(25,443)	(19,590)
Pro forma	**$370,098**	$276,736	$200,009
NET EARNINGS PER SHARE:			
Basic:			
As reported	**$ 1.35**	$ 1.03	$ 0.76
Pro forma	**$ 1.25**	$ 0.94	$ 0.69
Diluted:			
As reported	**$ 1.31**	$ 1.00	$ 0.74
Pro forma	**$ 1.23**	$ 0.92	$ 0.67

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		
	2003	2002	2001
Dividend yield	**—**	—	—
Expected volatility	**45.00%**	45.00%	45.00%
Risk free interest rates	**2.96%**	4.72%	4.80%
Expected lives (years)	**5.9**	7.0	7.0
Weighted average fair value of options granted during the year	**$16.29**	$17.15	$12.77

On March 31, 2004, the FASB issued an exposure draft that would require the fair value of stock-based compensation to be recognized as a cost in the financial statements. The exposure draft provides for a comment period, which ends June 30, 2004. The proposed statement would be effective for awards that are granted, modified, or settled in fiscal years beginning after December 15, 2004. As the exposure draft has not been finalized, the Company can not yet determine the impact of any requirement to recognize stock-based compensation as a cost in the consolidated financial statements.

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 low 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, which included $175.5 million of cash and $18.9 million in deferred payments payable in cash over the next three years.

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 estimated fair value of the assets acquired and liabilities assumed at the date of acquisition including a debt prepayment penalty. The Company is in the process of finalizing the valuations of certain assets acquired and liabilities assumed; thus the allocation of the purchase price is subject to refinement.

(in thousands)	June 19, 2003
Current assets	$ 73,302
Property and equipment and other non-current assets	72,680
Intangible asset	19,898
Goodwill	131,713
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 Stores, Inc. ("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 2003 or 2002.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

(in thousands)	**February 28, 2004**	March 1, 2003
Land and buildings	**$ 28,189**	$ 6,875
Furniture, fixtures and equipment	**387,517**	321,507
Leasehold improvements	**333,502**	268,493
Computer equipment and software	**146,999**	122,896
	896,207	719,771
Less: Accumulated depreciation and amortization	**(380,043)**	(295,864)
	$516,164	$423,907

4. LINES OF CREDIT

At February 28, 2004, the Company maintained two uncommitted lines of credit of $75 million and $50 million, which expire in September 2004 and November 2004, respectively. 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 these purposes. During fiscal 2003, the Company did not have any direct borrowings under the uncommitted lines of credit. As of February 28, 2004, there was approximately $15.0 million in outstanding letters of credit. In addition, at February 28, 2004, the Company maintained unsecured standby letters of credit of $40 million, primarily for certain insurance programs, of which approximately $35.8 million was outstanding.

The Company maintained an uncommitted line of credit of $75 million at March 1, 2003. This uncommitted line of credit was utilized for letters of credit in the ordinary course of business. During fiscal 2002, the Company did not have any direct borrowings under the uncommitted line of credit. At March 1, 2003, there was approximately $8.5 million of outstanding letters of credit and $16.2 million of standby letters of credit.

5. INVESTMENT SECURITIES

The Company's investment securities consist of held-to-maturity U.S. Government Agency debt securities and municipal debt securities, which are stated at amortized cost. The Company intends to hold the securities to maturity and has classified the investments as such. The following table summarizes the Company's investment securities:

	February 28, 2004		March 1, 2003	
(in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Debt Securities:				
Short term	**$ 41.6**	**$ 41.6**	$100.9	$101.8
Long term	**210.8**	**211.4**	148.0	148.4
Total investment securities	**$252.4**	**$253.0**	$248.9	$250.2

The securities with maturity dates within one year are classified as short term investment securities and those with maturity dates beyond one year are classified as long term investment securities. The maturity dates of long term investment securities extend to February 2006 based on the current contractual maturities. Actual maturities could differ from contractual maturities because borrowers have the right to call certain obligations.

The excess of the fair value over the amortized cost is substantially the result of unrecognized gains in fiscal 2003 and 2002. There were no material unrealized losses in fiscal 2003 and 2002.

6. PROVISION FOR INCOME TAXES

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

(in thousands)	**2003**	2002	2001
	FISCAL YEAR		
Current:			
Federal	**$230,124**	$184,055	$123,787
State and local	**23,012**	18,405	11,953
	253,136	202,460	135,740
Deferred:			
Federal	**(2,783)**	(12,083)	1,188
State and local	**(278)**	(1,208)	545
	(3,061)	(13,291)	1,733
	$250,075	$189,169	$137,473

At February 28, 2004 and March 1, 2003, included in other current assets and in deferred rent and other liabilities is a net current deferred income tax asset of $74.3 million and $50.2 million, respectively, and a net noncurrent deferred income tax liability of $16.4 million and $5.4 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 28, 2004**	March 1, 2003
Deferred tax assets:		
Inventories	**$25,003**	$18,134
Deferred rent	**12,627**	11,207
Insurance	**25,103**	18,063
Other	**38,418**	22,578
Deferred tax liability:		
Depreciation	**(43,260)**	(25,186)
	$57,891	$44,796

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 2003, 2002, and 2001, the effective tax rate is comprised of the Federal statutory income tax rate of 35.00% and the State income tax rate, net of Federal benefit, of 3.50%.

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. At March 1, 2003, other assets (noncurrent) included $5.4 million, representing the Company's interest in the life insurance policies. 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, 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.

B. The Company obtained certain payroll services from a related party through August 2001. In fiscal 2003 and 2002, the Company paid no such fees. The Company paid fees for such services of $203,000 for fiscal 2001.

C. 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 amounts of $913,000 and $761,000 for fiscal 2002 and 2001, respectively. 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 2003.

D. Since the acquisitions of CTS and Harmon, the Company leased warehouse, office and retail spaces from entities controlled by senior management of CTS and Harmon and paid occupancy costs of approximately $4,721,000 in fiscal 2003 and approximately $461,000 in fiscal 2002.

8. LEASES

The Company leases retail stores, as well as warehouses, office facilities and equipment, under agreements expiring at various dates through 2029. Certain leases provide for contingent rents (which are based upon store sales exceeding stipulated amounts and are immaterial in fiscal 2003, 2002 and 2001), scheduled rent increases and renewal options generally ranging from five to twenty years. The Company is obligated under a majority of the leases to pay for taxes, insurance and common area maintenance charges.

As of February 28, 2004, future minimum lease payments under noncancelable operating leases are as follows:

Fiscal Year *(in thousands)*	**Amount**
2004	$ 273,934
2005	285,298
2006	283,051
2007	274,325
2008	265,991
Thereafter	1,344,563
Total future minimum lease payments	$2,727,162

Expenses for all operating leases were $251.0 million, $219.8 million and $178.7 million for fiscal 2003, 2002 and 2001, 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 may defer annual pre-tax compensation 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. In addition, each participant in the Bed Bath & Beyond Plan and the Christmas Tree Shops Plan may elect to make voluntary, non-tax deductible contributions in excess of the pre-tax compensation limit up to 15% of compensation. The Company has not made a material contribution to any plan for fiscal 2003, 2002 or 2001.

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 year ended February 28, 2004, the net periodic pension cost was not material to the Company's results of operations. As of February 28, 2004, the Company has recorded an $8.3 million pension liability within deferred rent and other liabilities in the accompanying consolidated financial statements.

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.

The Company had certain purchase obligations totaling $644.0 million as of February 28, 2004 which consisted of purchase orders for merchandise and capital expenditures. Typically these purchase orders, which are not included in the Company's consolidated balance sheet, allow the Company to cancel the orders without recourse.

11. SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid income taxes of $226.7 million, $151.8 million and $89.8 million in fiscal 2003, 2002 and 2001, respectively.

12. STOCK OPTION PLANS

Options to purchase shares of the Company's common stock have been granted to employees under various stock option plans, which plans aggregated 64.4 million shares of common stock, subject to adjustment under certain circumstances. Option grants, which are issued at market value on the date of grant, generally become exercisable in five equal installments beginning one to three years after the date of grant, and in all events, expire ten 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 option price per share for all options issued under the stock option plans.

The following table summarizes stock option transactions:

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at March 3, 2001	24,171,985	$10.51
Options granted	3,439,800	23.73
Options exercised	(3,550,917)	7.25
Options canceled	(943,860)	14.41
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 exercisable:		
At March 2, 2002	6,155,914	$ 9.30
At March 1, 2003	8,404,205	$11.20
At February 28, 2004	**6,706,123**	**$12.45**

The following table summarizes information pertaining to stock options outstanding and exercisable at February 28, 2004:

	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 11.47	5,832,792	4.47	$8.81	3,213,752	$ 7.16
11.83 to 16.13	4,696,809	4.80	13.78	2,474,949	13.51
16.81 to 28.34	3,071,935	7.00	22.67	507,125	21.09
29.29 to 31.83	5,811,950	8.45	31.23	381,437	31.52
31.91 to 42.54	3,621,020	9.14	38.06	128,860	33.55
$ 2.37 to 42.54	**23,034,506**	**6.61**	**$21.92**	**6,706,123**	**$12.45**

13. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

(in thousands, except per share data)	FISCAL 2003 QUARTER ENDED				FISCAL 2002 QUARTER ENDED			
	May 31, 2003	August 30, 2003	November 29, 2003	February 28, 2004	June 1, 2002	August 31, 2002	November 30, 2002	March 1, 2003
Net sales	$893,868	$1,111,445	$1,174,740	$1,297,928	$776,798	$903,044	$936,030	$1,049,292
Gross profit	367,180	459,145	486,987	563,352	318,362	370,335	386,224	443,626
Operating profit	90,450	155,867	161,459	231,567	72,701	119,687	119,228	168,441
Earnings before provision for income taxes	93,509	158,062	163,424	234,550	75,283	122,697	122,133	171,235
Provision for income taxes	36,001	60,854	62,918	90,302	28,984	47,238	47,021	65,926
Net earnings	$ 57,508	$ 97,208	$ 100,506	$ 144,248	$ 46,299	$ 75,459	$ 75,112	$ 105,309
EPS-Basic (1)	$ 0.19	$ 0.33	$ 0.34	$ 0.48	$ 0.16	$ 0.26	$ 0.26	$ 0.36
EPS-Diluted (1)	$ 0.19	$ 0.32	$ 0.33	$ 0.47	$ 0.15	$ 0.25	$ 0.25	$ 0.35

(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.*

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Bed Bath & Beyond Inc. and subsidiaries as of February 28, 2004 and March 1, 2003, 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 28, 2004. 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 auditing standards generally accepted in the United States of America. 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 28, 2004 and March 1, 2003, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 28, 2004 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York
March 26, 2004

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
Managing Director, American
Economic Planning Group
Watchung, 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 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 – Corporate Development

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

Martin Eisenberg
Vice President – Stores – Northeast Region

Alan M. Freeman
Vice President – Real Estate Counsel

Seth D. Geldzahler
Vice President – Real Estate

Robert Germano
President – Harmon Stores, Inc.

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

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

Scott Sheldon
Vice President – Store Layout –
Harmon Stores, Inc.

Concetta Van Dyke
Vice President – Human Resources

Kevin M. Wanner
Vice President – Technology and Operations

CORPORATE AND SHAREHOLDER INFORMATION

Corporate Offices
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 2003 Form 10-K as filed with the Securities and Exchange Commission ("SEC") may be obtained from the Investor Relations Department at the Bed Bath & Beyond Inc. 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. July 1, 2004, at the Headquarters Plaza Hotel, Three Headquarters Plaza, 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 2003 and fiscal 2002:

Quarter	High	Low
Fiscal 2003		
First	**$ 41.79**	**$ 30.30**
Second	**43.80**	**37.10**
Third	**43.35**	**38.27**
Fourth	**43.35**	**39.00**
Fiscal 2002		
First	$ 37.17	$ 31.45
Second	37.74	26.95
Third	37.29	30.16
Fourth	36.79	31.70

At March 26, 2004, there were approximately 729 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 28, 2004)

BED BATH & BEYOND

Alabama	7	Nebraska	1
Arizona	9	Nevada	5
Arkansas	3	New Hampshire	4
California	67	New Jersey	26
Colorado	14	New Mexico	2
Connecticut	10	New York	31
Delaware	1	North Carolina	16
Florida	48	North Dakota	2
Georgia	19	Ohio	21
Idaho	3	Oklahoma	4
Illinois	25	Oregon	7
Indiana	12	Pennsylvania	22
Iowa	5	Rhode Island	3
Kansas	6	South Carolina	10
Kentucky	4	Tennessee	13
Louisiana	10	Texas	47
Maine	2	Utah	6
Maryland	13	Vermont	1
Massachusetts	10	Virginia	19
Michigan	24	Washington	15
Minnesota	8	Wisconsin	6
Mississippi	2		
Missouri	10	Puerto Rico	2
		Total	**575**

CHRISTMAS TREE SHOPS

Connecticut	3
Maine	1
Massachusetts	14
New Hampshire	2
New York	2
Rhode Island	2
Total	**24**

HARMON

Connecticut	1
New Jersey	22
New York	7
Total	**30**

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

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

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

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