2005

2005 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 the exemplary efforts of our more than 33,000 associates, our name becomes more familiar each week. As recognition of our name increases, this magnifies the significance of what our name represents. Bed Bath & Beyond, with its Bed Bath & Beyond, Christmas Tree Shops and Harmon stores, must stand for selection, quality, value and service. As importantly, our name must also stand for integrity and respect for our customers, associates and the communities we serve. We know that everything we do, every interaction we have, reflects on our name. Simply put, everything counts.

That is why many of you have noticed, and even encouraged, our efforts over the last several years to decrease the cost of this annual publication. It is a small thing, but it reflects our commitment to be efficient and effective in everything we do. This desire for efficiency naturally extends to the areas of our energy usage and the consumption of natural resources. The broader concerns over energy costs, our nation's dependence on foreign oil, the rate of consumption and environmental impacts of fossil fuels, deforestation, and global warming, must be our concerns as well. Our response to these broad concerns is local, from changing the temperature in our stores to managing centrally their energy efficiency, to using new, "cooler" materials for our roofs and more efficient lights to illuminate our store signs. All these provide us many opportunities on a community level to conserve. Being concerned about conservation is, often times, more expensive in the short term, but it would be far too expensive for our future and for the future of our children, in the long term, to ignore.

In the case of the booklet you are holding, this year we have opted to use recycled paper, which costs more than the paper we have used previously. However, we have been able to keep the cost per book at the same level as last year by going to a less expensive, coverless format. Also, as we have for the last several years, we have combined our Annual Report, Notice of Annual Meeting and Proxy Statement into this single booklet. Our goal again is to present you our annual information in as straightforward and cost efficient a manner as possible.

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

	Fiscal Year Ended [1]													
	Feb. 25, 2006	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	$ 5,809,562	$ 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	2,485,748	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	879,171	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	572,847	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]	$ 1.92	$ 1.65	$ 1.31	$ 1.00	$ 0.74	$ 0.59	$ 0.46	$ 0.34	$ 0.26	$ 0.20	$ 0.14	$ 0 .11	$ 0.08	$ 0.06
SELECTED OPERATING DATA														
Number of stores open (at period end)	809	721	629	519	396	311	241	186	141	108	80	61	45	38
Total square feet of store space (at period end)	25,502,000	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	4.6%	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	$ 1,082,399	$ 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	3,382,140	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]	$ 2,262,450	$ 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 2005 and 2004, the Company repurchased approximately $598 million and $350 million of its common stock, respectively.*

On the following pages, we discuss some of the highlights from our recently completed fiscal 2005. We also will provide you with the information you need in connection with our upcoming Annual Meeting.

Fiscal 2005 was our 35th year of operations, and our 14th as a public company. As set forth below, the results of fiscal 2005 were our best ever. Here are some of the highlights:

- **Net earnings for the year ended February 25, 2006 were $1.92 per share ($572.8 million), exceeding fiscal 2004 per share net earnings of $1.65 ($505.0 million) by approximately 16.4%.**
- **Net sales for fiscal 2005 were $5.810 billion, an increase of approximately 12.9% from the prior year's sales of $5.148 billion.**
- **Comparable store sales for fiscal 2005 increased by approximately 4.6%, on top of an increase of approximately 4.5% in fiscal 2004.**
- **During fiscal 2005, we opened 83 new Bed Bath & Beyond stores. We also opened three Christmas Tree Shops and four Harmon stores. We ended the year with 742 Bed Bath & Beyond stores, 29 Christmas Tree Shops and 38 Harmon stores.**
- **We returned $600 million in value to our shareholders through the share repurchase program completed during our fiscal fourth quarter.**
- **At the close of fiscal 2005, cash and investments totaled approximately $1 billion, even after deducting cash used in our expansion program, ongoing infrastructure enhancements and the $600 million dollar share repurchase program we completed during the fiscal year.**

This is the point in prior years where we have credited our successes to our associates and the culture they have helped us to create and maintain. It remains as true this year as it ever has: our people demonstrate daily their exceptional dedication and talents, and our culture permits and encourages them to flourish. Consistent with that culture, though, our focus is not on the past. Our customer has already moved on to tomorrow. So we are already looking forward as well, and while the chart to the left might look impressive, what it says to us quite clearly is this Company can do more, and it can do better. That's how we see it.

As we take this moment to prepare our annual letter, we again realize how fortunate we are to be teamed with such wonderful people. We would like to thank each of our Bed Bath & Beyond, Christmas Tree Shops and Harmon associates for their outstanding efforts over the course of the prior year. In addition, we again thank each of our customers and business partners for their roles in our continued growth and success. Just because we do not get a chance to say it often publicly does not make it any less true. We are grateful, and we are looking forward to another great year.

WARREN EISENBERG
Co-Chairman

LEONARD FEINSTEIN
Co-Chairman

STEVEN H. TEMARES
Chief Executive Officer and
Member of the Board of Directors

May 24, 2006

CORPORATE PROFILE

Founded in 1971, Bed Bath & Beyond Inc. is a nationwide chain of retail stores that sell a wide assortment of merchandise principally including domestics merchandise and home furnishings as well as food, giftware and health and beauty care items. 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. If you hold restricted stock under the Company's 2004 Incentive Compensation Plan, you are also considered the shareholder of record with respect to those shares. 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 2005 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Bed Bath & Beyond Inc. and subsidiaries (the "Company") is a nationwide chain of retail stores, operating under the names Bed Bath & Beyond ("BBB"), Christmas Tree Shops ("CTS") and Harmon. The Company sells a wide assortment of merchandise principally including domestics merchandise and home furnishings as well as food, giftware and health and beauty care items. 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 its infrastructure.

Operating in the highly competitive retail industry, the Company, along with other retail companies, is influenced by a number of factors including, but not limited to, consumer preferences and spending habits, general economic conditions, unusual weather patterns, competition from existing and potential competitors, and the ability to find suitable locations at acceptable occupancy costs to support the Company's expansion program.

In fiscal 2005, the Company's consolidated net sales increased by 12.9% and net earnings increased by 13.4%. Contributing to this increase was the expansion of store space by 11.1%, from 22,945,000 square feet at fiscal year end 2004 to 25,502,000 square feet at fiscal year end 2005. The 2,557,000 square feet increase was primarily the result of opening 83 BBB stores, three CTS stores and four Harmon stores.

Comparable store sales for fiscal 2005 increased by approximately 4.6% as compared with an increase of approximately 4.5% and 6.3% in fiscal 2004 and 2003, respectively. As of the beginning of the fiscal third quarter of 2004, CTS was included in the calculation of comparable store sales. The fiscal 2005 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. The Company's fiscal 2006 store opening program is expected to include approximately 80 BBB stores, six CTS stores and the continuing development of its Harmon concept. The Company's new store openings are expected to add approximately 2.5 million square feet of store space.

Fiscal 2006 will be a 53 week period ending March 3, 2007.

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 25, 2006	February 26, 2005	February 28, 2004	**February 25, 2006**	February 26, 2005
Net sales	**100.0%**	100.0%	100.0%	**12.9%**	15.0%
Cost of sales	**57.2**	57.5	58.1	**12.2**	13.8
Gross profit	**42.8**	42.5	41.9	**13.7**	16.5
Selling, general and administrative expenses	**27.7**	27.1	27.6	**15.3**	12.7
Operating profit	**15.1**	15.4	14.3	**10.9**	23.9
Earnings before provision for income taxes	**15.8**	15.8	14.5	**12.8**	24.9
Net earnings	**9.9**	9.8	8.9	**13.4**	26.4

Net Sales

Net sales in fiscal 2005 increased $661.9 million to $5.810 billion, representing an increase of 12.9% over the $5.148 billion of net sales in fiscal 2004, which increased $669.7 million or 15.0% over net sales of $4.478 billion in fiscal 2003. Approximately 64% of the increase in fiscal 2005 was attributable to an increase in the Company's new store sales, and the balance of the increase was primarily attributable to the increase in comparable store sales. The increase in comparable store sales for fiscal 2005 of 4.6% 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 2004, approximately 56% of the increase in net sales 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.

Sales of domestics merchandise accounted for approximately 47%, 48% and 51% of net sales in fiscal 2005, 2004 and 2003, respectively, of which the Company estimates that bed linens accounted for approximately 16%, 17% and 16% of net sales in fiscal 2005, 2004 and 2003, respectively. The remaining net sales in fiscal 2005, 2004 and 2003 of 53%, 52% and 49%, respectively, represented sales of home furnishings and other items. The change in the product mix between fiscal 2004 and 2003 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 2005, 2004 or 2003.

Gross Profit

Gross profit in fiscal 2005, 2004 and 2003 was $2.486 billion or 42.8% of net sales, $2.186 billion or 42.5% of net sales and $1.877 billion or 41.9% of net sales, respectively. The increase in gross profit between fiscal 2005 and 2004 and between fiscal 2004 and 2003 as a percentage of net sales was primarily attributable to lower inventory acquisition costs of the Company's current merchandise offerings.

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") were $1.607 billion or 27.7% of net sales in fiscal 2005 compared to $1.394 billion or 27.1% of net sales in fiscal 2004. The increase in SG&A as a percentage of net sales is primarily due to the expensing of stock options and related changes in the compensation program, reflecting the early adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R").

SG&A as a percentage of net sales decreased to 27.1% in fiscal 2004 from 27.6% in fiscal 2003 primarily as a result of a relative decrease in payroll and payroll related items, occupancy costs and other expenses, which primarily resulted from the comparable store sales increase. These relative decreases were partially offset by a relative increase in net advertising costs. SG&A in fiscal 2004 was $1.394 billion as compared to $1.237 billion in fiscal 2003.

Operating Profit

Operating profit increased to $879.2 million in fiscal 2005 compared to $792.4 million in fiscal 2004. 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 partially offset by a relative increase in SG&A as a percentage of net sales, as discussed above.

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 $35.9 million in fiscal 2005 compared to $18.8 million in fiscal 2004 primarily due to an increase in the Company's average investment interest rate as a result of the upward trend in short term interest rates. Interest income increased in fiscal 2004 from $10.2 million in fiscal 2003 primarily due to an increase in the cash invested and an increase in the Company's average investment interest rate as a result of the upward trend in short term interest rates.

Income taxes

The effective tax rate was 37.40% for fiscal 2005, 37.75% for fiscal 2004 and 38.50% for fiscal 2003. The decreases are primarily 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. For fiscal 2006, the effective tax rate is estimated at approximately 36.60%.

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 fourteen year period from the beginning of fiscal 1992 to the end of fiscal 2005, the chain has grown from 34 to 809 stores. Total square footage grew from 917,000 square feet at the beginning of fiscal 1992 to 25,502,000 square feet at the end of fiscal 2005.

The Company intends to continue its expansion program and currently plans to open new stores in fiscal 2006 (see details under "Liquidity and Capital Resources" below). The Company believes that a predominant portion of any increase in its net sales in fiscal 2006 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.

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 2005 was $660.4 million, compared with $607.0 million in fiscal 2004. 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 other current assets (primarily due to receivables from the settlement of credit card litigation and hurricane related insurance claims), an increase in merchandise inventories (primarily the result of new store space) and an increase in income taxes paid.

Inventory per square foot was $51.04 as of February 25, 2006 and $50.21 as of February 26, 2005. 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 2005 was $67.6 million, compared with $353.7 million in fiscal 2004. The decrease in net cash used in investing activities was attributable to a decrease in purchases of investment securities partially offset by a decrease in redemptions of investment securities and an increase in capital expenditures.

Net cash used in financing activities in fiscal 2005 was $567.3 million, compared with $325.7 million in fiscal 2004. The increase in net cash used in financing activities was primarily attributable to common stock repurchased of $598 million in the current year compared to $350 million in the prior year under the Company's stock repurchase program.

At February 25, 2006, the Company maintained two uncommitted lines of credit of $100 million and $75 million, with expiration dates of September 3, 2006 and February 28, 2006, respectively. These uncommitted lines of credit are currently and are expected to be used for letters of credit in the ordinary course of business. In addition, under these uncommitted lines of credit, the Company can obtain unsecured standby letters of credit. During fiscal 2005, the Company did not have any direct borrowings under the uncommitted lines of credit. As of February 25, 2006, there was approximately $11.5 million of outstanding letters of credit and approximately $33.7 million of outstanding unsecured standby letters of credit, primarily for certain insurance programs. Subsequent to the end of fiscal 2005, the Company extended the $75 million uncommitted line of credit to February 28, 2007. Although no assurances can be provided, the Company intends to renew the $100 million uncommitted line of credit before the expiration date. The Company believes that during fiscal 2006, 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 the Company is obligated to pay as of February 25, 2006 as follows:

(in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Lease Obligations	$ 3,067,143	$ 340,806	$ 687,529	$ 617,538	$ 1,421,270
Purchase Obligations	415,513	415,513	—	—	—
Deferred Acquisition Payments	6,667	6,667	—	—	—
Total Contractual Obligations	$ 3,489,323	$ 762,986	$ 687,529	$ 617,538	$ 1,421,270

As of February 25, 2006, the Company has leased sites for 56 new stores planned for opening in fiscal 2006 or 2007, for which aggregate minimum rental payments over the term of the leases are approximately $355.7 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.

Subsequent to fiscal 2005, the Company purchased the Union, New Jersey corporate office location.

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 April.

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

The Financial Accounting Standards Board ("FASB") issued SFAS No. 123R which requires 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 stock-based compensation. The Company adopted SFAS No. 123R on August 28, 2005 (the "date of adoption"), the beginning of its third quarter of fiscal 2005, the year ended February 25, 2006. While SFAS No. 123R is not required to be effective until the first annual reporting period that begins after June 15, 2005, early adoption was encouraged and the Company elected to adopt before the required effective date.

The Company adopted SFAS No.123R under the modified prospective application. Under this application, prior period amounts are not restated to include the effects of stock-based compensation. As a result, certain components of the Company's financial statements will not be comparable until the third quarter of fiscal 2006, the anniversary of the adoption of SFAS No. 123R. The Company will continue to comply with the disclosure requirements of SFAS No. 123R, which include the effect on net earnings and earnings per share "as reported" and as if compensation expense had been recorded for the comparable periods reported, respectively. The impact of recording stock-based compensation expense and other changes made to the Company's overall compensation plan was approximately $0.06 per diluted share for fiscal 2005. The Company estimates the impact will be approximately $0.06 per diluted share for the first half of fiscal 2006.

Also under the modified prospective application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Currently, the Company's stock-based compensation relates to restricted stock awards and stock options. The Company's restricted stock awards are considered nonvested share awards as defined under SFAS No. 123R. Prior to the third quarter of fiscal 2005, the Company applied the provisions of Accounting Principles Board ("APB") No. 25, "Accounting for Stock Issued to Employees," as permitted under SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123." During the first half of fiscal 2005, which ended on August 27, 2005, the Company recognized compensation expense for restricted stock awards over the service period, but did not recognize compensation expense for stock options, since the options were granted at market value on the date of grant.

Stock-based compensation expense for the fiscal year ended February 25, 2006, which includes the expense of stock options beginning in the third quarter of fiscal 2005 and restricted stock awards from the date of grant, was $25.6 million ($16.0 million after tax or $0.05 per diluted share). The amount of stock-based compensation cost capitalized as of February 25, 2006 was approximately $0.9 million.

During fiscal 2004, in anticipation of adopting SFAS No. 123R, the Company revised its overall approach to compensation for its employees, including stock-based compensation, and 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. As a result, during fiscal 2005, awards consisting of a combination of stock options and performance-based restricted stock were granted to executive officers and other executives and awards consisting of restricted stock were granted to the Company's other employees who traditionally have received stock options. Awards of stock options and restricted stock generally vest in five equal annual installments beginning one to three years from the date of grant.

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. The Company generally issues new shares for stock option exercises and restricted stock awards. The number of shares and the price per share is determined by the Compensation Committee for those awards granted to executive officers and by an appropriate committee for all other awards granted.

As of February 25, 2006, unrecognized compensation expense related to the unvested portion of the Company's stock options and restricted stock awards was $123.1 million and $33.1 million, respectively, which is expected to be recognized over a weighted average period of 3.6 years and 5.2 years, respectively.

In October 2005, the FASB issued FASB Staff Position ("FSP") 13-1, "Accounting for Rental Costs Incurred during a Construction Period." FSP 13-1 requires rental costs associated with ground or building operating leases that are incurred during a construction period be recognized as rental expense. FSP 13-1 becomes effective for the first reporting period beginning after December 15, 2005. The Company does not believe that the adoption of FSP 13-1 will have a material impact on the Company's consolidated financial statements.

In June 2005, the FASB's Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination." EITF 05-6 requires leasehold improvements purchased after the beginning of the initial lease term to be amortized over the shorter of the assets' useful life or a term that includes the original lease term plus any renewals that are reasonably assured at the date the leasehold improvements are purchased. This guidance was effective for reporting periods beginning after June 29, 2005. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB No. 20 and SFAS No. 3," which changes the requirements for the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005; however, the statement does not change the transition provisions of any existing accounting pronouncements. The Company does not believe that the adoption of SFAS No.154 will have a material impact on the Company's consolidated financial statements.

In March 2005, the 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 adoption of FIN No. 47 did not have a material impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4." SFAS No. 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.

CRITICAL ACCOUNTING POLICIES

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

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. Judgment is required in estimating realizable value and factors considered are the age of merchandise and anticipated demand. Actual realizable value could differ materially from this estimate based upon future customer demand or economic conditions.

The Company estimates its reserve for shrinkage throughout the year, based on historical shrinkage. 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 fair value. The Company has not historically had any material impairment of long-lived assets. In the future, if events or market conditions affect the fair value of 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.

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 ultimate resolution of these ongoing matters as a result of future developments could have a material impact on the Company's earnings. 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 markdowns, asset residual values and projected occupancy costs, are charged to earnings as incurred.

Stock-Based Compensation: Prior to August 28, 2005, the Company accounted for its stock-based compensation plans under the provisions of APB No. 25, "Accounting for Stock Issued to Employees," as permitted under SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." During the first half of fiscal 2005, which ended on August 27, 2005, the Company recognized compensation expense for restricted stock awards over the service period, but did not recognize compensation expense for stock options, since the options were granted at market value on the date of grant.

Effective August 28, 2005, the Company adopted SFAS No. 123R under the modified prospective method. Accordingly, prior period amounts have not been restated. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remain unvested at the date of adoption. Currently, the Company's stock-based compensation relates to restricted stock awards and stock options. The Company's restricted stock awards are considered nonvested share awards as defined under SFAS No. 123R.

Under SFAS No. 123R, the Company uses a Black-Scholes option-pricing model to determine the fair value of its stock options. The Black-Scholes model includes various assumptions, including the expected life of stock options, the expected volatility and the expected risk free interest rate. These assumptions reflect the Company's best estimates, but they involve inherent uncertainties based on market conditions generally outside the control of the Company. As a result, if other assumptions had been used, total stock-based compensation cost, as determined in accordance with SFAS No. 123R could have been materially impacted. Furthermore, if the Company uses different assumptions for future grants, stock-based compensation cost could be materially impacted in future periods.

Also, under SFAS No. 123R, the Company is required to record stock-based compensation expense net of estimated forfeitures. The Company's forfeiture rate assumption used in determining its stock-based compensation expense is estimated based on historical data. The actual forfeiture rate could differ from these estimates.

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.

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: changes in the retailing environment and consumer preferences and spending habits; demographics and other macroeconomic factors that may impact the level of spending for the types of merchandise sold by the Company; general economic conditions; unusual weather patterns; competition from existing and potential competitors; competition from other channels of distribution; pricing pressures; the cost of labor, merchandise and other costs and expenses; and the ability to find suitable locations at acceptable occupancy costs to support the Company's expansion program.

CONSOLIDATED BALANCE SHEETS

Bed Bath & Beyond Inc. and Subsidiaries

(in thousands, except per share data)	**February 25, 2006**	February 26, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 247,697**	$ 222,108
Short term investment securities	**404,113**	629,339
Merchandise inventories	**1,301,720**	1,152,028
Other current assets	**118,415**	93,527
Total current assets	**2,071,945**	2,097,002
Long term investment securities	**393,862**	324,209
Property and equipment, net	**738,742**	609,631
Other assets	**177,591**	169,137
	$ 3,382,140	$ 3,199,979
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 534,910**	$ 450,525
Accrued expenses and other current liabilities	**249,092**	254,643
Merchandise credit and gift card liabilities	**113,514**	87,061
Income taxes payable	**92,030**	81,364
Total current liabilities	**989,546**	873,593
Deferred rent and other liabilities	**130,144**	122,624
Total liabilities	**1,119,690**	996,217
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 306,156 and 302,825 shares, respectively; outstanding 280,990 and 294,063 shares, respectively	**3,062**	3,028
Additional paid-in capital	**575,559**	491,508
Retained earnings	**2,632,224**	2,059,377
Treasury stock, at cost	**(948,395)**	(350,151)
Total shareholders' equity	**2,262,450**	2,203,762
	$ 3,382,140	$ 3,199,979

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 25, 2006**	February 26, 2005	February 28, 2004
Net sales	**$ 5,809,562**	$ 5,147,678	$ 4,477,981
Cost of sales	**3,323,814**	2,961,377	2,601,317
Gross profit	**2,485,748**	2,186,301	1,876,664
Selling, general and administrative expenses	**1,606,577**	1,393,887	1,237,321
Operating profit	**879,171**	792,414	639,343
Interest income	**35,920**	18,773	10,202
Earnings before provision for income taxes	**915,091**	811,187	649,545
Provision for income taxes	**342,244**	306,223	250,075
Net earnings	**$ 572,847**	$ 504,964	$ 399,470
Net earnings per share – Basic	**$ 1.95**	$ 1.68	$ 1.35
Net earnings per share – Diluted	**$ 1.92**	$ 1.65	$ 1.31
Weighted average shares outstanding – Basic	**293,899**	300,743	296,854
Weighted average shares outstanding – Diluted	**298,973**	306,642	304,690

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 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
Net earnings				572,847			572,847
Shares sold under employee stock option plans, including tax benefit	2,300	24	57,622				57,646
Issuance of restricted shares, net	1,031	10	(10)				—
Stock-based compensation expense			26,439				26,439
Repurchase of common stock, including fees					(16,404)	(598,244)	(598,244)
Balance at February 25, 2006	**306,156**	**$ 3,062**	**$ 575,559**	**$ 2,632,224**	**(25,166)**	**$ (948,395)**	**$ 2,262,450**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Bed Bath & Beyond Inc. and Subsidiaries

	FISCAL YEAR ENDED		
(in thousands)	**February 25, 2006**	February 26, 2005	February 28, 2004
Cash Flows from Operating Activities:			
Net earnings	**$ 572,847**	$ 504,964	$ 399,470
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	**111,111**	97,491	84,645
Amortization of bond premium	**3,172**	1,657	1,185
Stock-based compensation cost	**26,439**	—	—
Excess tax benefit from stock-based compensation	**20,011**	27,049	64,832
Deferred income taxes	**(25,874)**	4,056	(3,061)
(Increase) decrease in assets, net of effect of acquisition:			
Merchandise inventories	**(149,692)**	(139,694)	(27,058)
Trading investment securities	**(423)**	—	—
Other current assets	**(23,543)**	(7,350)	(2,055)
Other assets	**(307)**	(145)	5,466
Increase (decrease) in liabilities, net of effect of acquisition:			
Accounts payable	**64,892**	42,517	15,345
Accrued expenses and other current liabilities	**(5,742)**	(12,733)	17,622
Merchandise credit and gift card liabilities	**26,453**	23,873	19,006
Income taxes payable	**10,666**	47,519	(37,993)
Deferred rent and other liabilities	**30,425**	17,827	7,042
Net cash provided by operating activities	**660,435**	607,031	544,446
Cash Flows from Investing Activities:			
Purchase of held-to-maturity investment securities	**(442,356)**	(484,793)	(325,663)
Redemption of held-to-maturity investment securities	**331,565**	122,349	357,020
Purchase of available-for-sale investment securities	**(1,524,835)**	(2,414,778)	(1,997,804)
Redemption of available-for-sale investment securities	**1,788,450**	2,604,900	1,567,700
Payment for acquisition, net of cash acquired	**—**	—	(175,487)
Capital expenditures	**(220,394)**	(181,363)	(109,003)
Net cash used in investing activities	**(67,570)**	(353,685)	(683,237)
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options	**34,953**	31,080	74,597
Excess tax benefit from stock-based compensation	**2,682**	—	—
Repurchase of common stock, including fees	**(598,244)**	(350,151)	—
Payment of deferred purchase price for acquisition	**(6,667)**	(6,667)	—
Prepayment of acquired debt	**—**	—	(21,215)
Net cash (used in) provided by financing activities	**(567,276)**	(325,738)	53,382
Net increase (decrease) in cash and cash equivalents	**25,589**	(72,392)	(85,409)
Cash and cash equivalents:			
Beginning of period	**222,108**	294,500	379,909
End of period	**$ 247,697**	$ 222,108	$ 294,500

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Bed Bath & Beyond Inc. and Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

A. Nature of Operations

Bed Bath & Beyond Inc. and subsidiaries (the "Company") is a nationwide chain of retail stores, operating under the names Bed Bath & Beyond ("BBB"), Christmas Tree Shops ("CTS") and Harmon. The Company sells a wide assortment of merchandise principally including domestics merchandise and home furnishings as well as food, giftware and health and beauty care items. 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 2005, 2004 and 2003 represented 52 weeks and ended on February 25, 2006, February 26, 2005 and February 28, 2004, respectively.

D. Segments

The Company accounts for its operations as one operating segment.

E. Use of Estimates

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

F. Recent Accounting Pronouncements

In October 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") 13-1, "Accounting for Rental Costs Incurred during a Construction Period." FSP 13-1 requires rental costs associated with ground or building operating leases that are incurred during a construction period be recognized as rental expense. FSP 13-1 becomes effective for the first reporting period beginning after December 15, 2005. The Company does not believe that the adoption of FSP 13-1 will have a material impact on the Company's consolidated financial statements.

In June 2005, the FASB's Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination." EITF 05-6 requires leasehold improvements purchased after the beginning of the initial lease term to be amortized over the shorter of the assets' useful life or a term that includes the original lease term plus any renewals that are reasonably assured at the date the leasehold improvements are purchased. This guidance was effective for reporting periods beginning after June 29, 2005. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections - a replacement of Accounting Principles Board Opinion ("APB") No. 20 and SFAS No. 3," which changes the requirements for the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005; however, the statement does not change the transition provisions of any existing accounting pronouncements. The Company does not believe that the adoption of SFAS No.154 will have a material impact on the Company's consolidated financial statements.

In March 2005, the 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 adoption of FIN No. 47 did not have a material impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4." SFAS No. 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.

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 primarily 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. Included in cash and cash equivalents are credit and debit card receivables from banks, which typically settle within 5 business days, of $34.9 million and $31.4 million as of February 25, 2006 and February 26, 2005, respectively.

I. Investment Securities

Investment securities primarily 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.

Primarily 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. Judgment is required in estimating realizable value and factors considered are the age of merchandise and anticipated demand. Actual realizable value could differ materially from this estimate based upon future customer demand or economic conditions.

The Company estimates its reserve for shrinkage throughout the year, based on historical shrinkage. 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 $54.2 million, $51.4 million and $44.5 million for fiscal 2005, 2004 and 2003, 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 fair value. The Company has not historically had any material impairment of long-lived assets. In the future, if events or market conditions affect the fair value of 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 25, 2006 and February 26, 2005 is $147.6 million for goodwill and $19.9 million for the tradename of CTS, which are 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 ultimate resolution of these ongoing matters as a result of future developments could have a material impact on the Company's earnings. 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 $53.4 million and $42.6 million as of February 25, 2006 and February 26, 2005, respectively.

Q. Treasury Stock

The Company's Board of Directors has authorized repurchases of shares of its common stock for $200 million in January 2006, for $400 million in October 2005 and for $350 million in December 2004. 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 of Directors. During fiscal 2005, the Company repurchased approximately 16.4 million shares of its common stock at a total cost of approximately $598 million excluding brokerage fees. During fiscal 2004, the Company repurchased approximately 8.8 million shares of its common stock at a total cost of approximately $350 million excluding brokerage fees.

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

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. 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 $9.4 million, $8.7 million and $9.5 million for fiscal 2005, 2004 and 2003, respectively.

U. Store Opening, Expansion, Relocation and Closing Costs

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

V. Advertising Costs

Expenses associated with store advertising are charged to earnings as incurred. Net advertising costs amounted to $158.2 million, $134.5 million and $93.7 million for fiscal 2005, 2004 and 2003, respectively.

W. Stock-Based Compensation

The FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") which requires 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 stock-based compensation. The Company adopted SFAS No. 123R on August 28, 2005 (the "date of adoption"), the beginning of its third quarter of fiscal 2005, the year ended February 25, 2006. While SFAS No. 123R is not required to be effective until the first annual reporting period that begins after June 15, 2005, early adoption was encouraged and the Company elected to adopt before the required effective date.

Under SFAS No. 123R, the Company uses a Black-Scholes option-pricing model to determine the fair value of its stock options. The Black-Scholes model includes various assumptions, including the expected life of stock options, the expected volatility and the expected risk free interest rate. These assumptions reflect the Company's best estimates, but they involve inherent uncertainties based on market conditions generally outside the control of the Company. As a result, if other assumptions had been used, total stock-based compensation cost, as determined in accordance with SFAS No. 123R could have been materially impacted. Furthermore, if the Company uses different assumptions for future grants, stock-based compensation cost could be materially impacted in future periods.

Also, under SFAS No. 123R, the Company is required to record stock-based compensation expense net of estimated forfeitures. The Company's forfeiture rate assumption used in determining its stock-based compensation expense is estimated based on historical data. The actual forfeiture rate could differ from these estimates.

Prior to the third quarter of fiscal 2005, the Company applied the provisions of APB No. 25, "Accounting for Stock Issued to Employees," as permitted under SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123" and complied with the disclosure requirements of SFAS 123. During the first half of fiscal 2005, which ended on August 27, 2005, the Company recognized compensation expense for restricted stock awards over the service period, but did not recognize compensation expense for stock options, since the options were granted at market value on the date of grant. No compensation expense for stock-based awards was recognized in fiscal 2004 and 2003.

X. 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.

Y. Earnings per Share

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

Stock-based awards of approximately 4,879,700, 2,766,400 and 543,800 shares were excluded from the computation of diluted earnings per share as the effect would be anti-dilutive for fiscal 2005, 2004 and 2003, respectively.

Z. Reclassifications

Certain reclassifications have been made to the fiscal 2004 and 2003 consolidated financial statements to conform to the fiscal 2005 consolidated financial statement presentation.

2. ACQUISITION

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. Payments of $6.7 million each were made by the Company in June 2005 and June 2004.

The acquisition has been accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations."

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 the fiscal year.

	FISCAL YEAR ENDED
(in thousands, except per share data)	February 28, 2004 (Pro Forma)
Net sales	$ 4,582,309
Net earnings	$ 402,479
Net earnings per share:	
Basic	$ 1.36
Diluted	$ 1.32

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 period. Pro forma results are not intended to be a projection of future results.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

(in thousands)	**February 25, 2006**	February 26, 2005
Land and buildings	**$ 49,900**	$ 43,165
Furniture, fixtures and equipment	**517,469**	452,919
Leasehold improvements	**528,109**	405,928
Computer equipment and software	**231,047**	184,626
	1,326,525	1,086,638
Less: Accumulated depreciation and amortization	**(587,783)**	(477,007)
	$ 738,742	$ 609,631

4. LINES OF CREDIT

At February 25, 2006, the Company maintained two uncommitted lines of credit of $100 million and $75 million, with expiration dates of September 3, 2006 and February 28, 2006, respectively. These uncommitted lines of credit are currently and are expected to be used for letters of credit in the ordinary course of business. In addition, under these uncommitted lines of credit, the Company can obtain unsecured standby letters of credit. During fiscal 2005, the Company did not have any direct borrowings under the uncommitted lines of credit. As of February 25, 2006, there was approximately $11.5 million of outstanding letters of credit and approximately $33.7 million of outstanding unsecured standby letters of credit, primarily for certain insurance programs. Subsequent to the end of fiscal 2005, the Company extended the $75 million uncommitted line of credit to February 28, 2007. Although no assurances can be provided, the Company intends to renew the $100 million uncommitted line of credit before the expiration date.

At February 26, 2005, the Company maintained two uncommitted lines of credit of $100 million and $50 million. These uncommitted lines of credit were utilized for letters of credit in the ordinary course of business. During fiscal 2004, the Company did not have any direct borrowings under the uncommitted lines of credits. As of February 26, 2005, there was approximately $13.4 million of outstanding letters of credit and approximately $38.1 million of outstanding unsecured standby letters of credit, primarily for certain insurance programs.

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; available-for-sale auction rate securities, which are stated at cost or par value which approximates fair value; and trading securities, which are stated at fair market value. The securities as of February 25, 2006 and February 26, 2005 are as follows:

(in millions)	**February 25, 2006**	February 26, 2005
Held-to-maturity securities:		
Short term	**$ 291.6**	$ 268.5
Long term	**393.9**	309.3
	685.5	577.8
Available-for-sale securities:		
Short term	**112.1**	360.8
Long term	**—**	14.9
	112.1	375.7
Trading Securities:		
Short term	**0.4**	—
Total investment securities	**$ 798.0**	$ 953.5

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 25, 2006, the fair value of short term and long term held-to-maturity securities were $289.8 million and $390.0 million, respectively. As of February 26, 2005, the fair value of short term and long term held-to-maturity securities were $266.9 million and $307.1 million, respectively.

As of February 25, 2006 and February 26, 2005, the Company had gross unrecognized holding losses of $5.6 million and $3.9 million, respectively, relating to held-to-maturity investment securities with fair values totaling $678.8 million and $567.9 million, respectively. As of February 25, 2006, $294.8 million 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. Gross unrecognized holding gains relating to held-to-maturity investment securities were not material as of February 25, 2006 and February 26, 2005. As of February 25, 2006 and February 26, 2005, 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 ENDED		
(in thousands)	**February 25, 2006**	February 26, 2005	February 28, 2004
Current:			
Federal	**$ 331,930**	$ 271,061	$ 217,912
State and local	**36,188**	31,106	35,224
	368,118	302,167	253,136
Deferred:			
Federal	**(24,681)**	2,715	(2,783)
State and local	**(1,193)**	1,341	(278)
	(25,874)	4,056	(3,061)
	$ 342,244	$ 306,223	$ 250,075

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, had a significant impact on the Company's income tax liability.

At February 25, 2006, included in other current assets and in other assets is a net current deferred income tax asset of $71.5 million and a net noncurrent deferred income tax asset of $8.2 million. At February 26, 2005, 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 a net noncurrent deferred income tax liability of $16.3 million. 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 25, 2006**	February 26, 2005
Deferred Tax Assets:		
Inventories	**$ 29,859**	$ 26,207
Deferred rent and other rent credits	**29,130**	20,348
Insurance	**26,404**	24,518
Other	**44,306**	36,705
Deferred Tax Liabilities:		
Depreciation	**(37,986)**	(46,126)
Other	**(12,004)**	(7,817)
	$ 79,709	$ 53,835

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 2005, the effective tax rate is comprised of the Federal statutory income tax rate of 35.00%, the State income tax rate, net of Federal benefit, of 2.49% and other income tax benefits of 0.09%. For fiscal 2004, the effective tax rate is comprised of the Federal statutory income tax rate of 35.00%, the State income tax rate, net of Federal benefit, of 2.60% and other income tax effects of .15%. For fiscal 2003, 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. 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 25, 2006 and February 26, 2005.

B. In fiscal 2005 and 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. 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 $6.5 million, $6.9 million and $4.7 million in fiscal 2005, 2004 and 2003, respectively.

8. LEASES

The Company leases retail stores, as well as warehouses, office facilities and equipment, under agreements expiring at various dates through 2042. Certain leases provide for contingent rents (which are based upon store sales exceeding stipulated amounts and are immaterial in fiscal 2005, 2004 and 2003), 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 25, 2006, future minimum lease payments under noncancelable operating leases are as follows:

Fiscal Year	*(in thousands)*	Amount
2006		$ 340,806
2007		347,398
2008		340,131
2009		322,488
2010		295,050
Thereafter		1,421,270
Total future minimum lease payments		$3,067,143

Expenses for all operating leases were $322.0 million, $288.9 million and $251.0 million for fiscal 2005, 2004 and 2003, respectively.

9. EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company has three defined contribution 401(k) savings plans covering all eligible employees of the Company ("the Plans"). Effective December 31, 2003, one of these defined contribution 401(k) savings plans was frozen. Participants of the Plans may defer annual pre-tax compensation subject to statutory and Plan limitations. Effective January 1, 2006, a certain percentage of an employee's contributions, will be matched by the Company, subject to certain statutory and Plan limitations. This match will vest over a specified period of time. For fiscal 2005, the Company contributed approximately $0.5 million. For fiscal 2004 and fiscal 2003, the Company did not make a material contribution to the Plans, as the match was not yet effective.

Nonqualified Deferred Compensation Plan

Effective January 1, 2006, the Company adopted a nonqualified deferred compensation plan for the benefit of employees defined by the Internal Revenue Service as highly compensated. A certain percentage of an employee's contributions may be matched by the Company, subject to certain Plan limitations. This match will vest over a specified period of time. The Company did not make any contributions to the plan for fiscal 2005.

Defined Benefit Plan

The Company has a non-contributory defined benefit pension plan for the CTS employees, hired on or before July 31, 2003, 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 25, 2006 and February 26, 2005, the net periodic pension cost was not material to the Company's results of operations. The Company has a $7.1 million and $7.5 million liability, which is included in deferred rent and other liabilities as of February 25, 2006 and February 26, 2005, 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 and, in some instances, certain other supplemental retirement benefits.

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 $338.7 million, $229.0 million and $226.7 million in fiscal 2005, 2004 and 2003, respectively.

The Company recorded an accrual for capital expenditures of $49.6 million, $30.1 million and $20.7 million as of February 25, 2006, February 26, 2005 and February 28, 2004, respectively.

12. STOCK-BASED COMPENSATION

At the beginning of its third quarter of fiscal 2005, the Company adopted SFAS No. 123R under the modified prospective application. Accordingly, prior period amounts have not been restated. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Currently, the Company's stock-based compensation relates to restricted stock awards and stock options. The Company's restricted stock awards are considered nonvested share awards as defined under SFAS No. 123R.

Prior to the third quarter of fiscal 2005, the Company applied the provisions of APB No. 25, "Accounting for Stock Issued to Employees," as permitted under SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123." During the first half of fiscal 2005, which ended on August 27, 2005, the Company recognized compensation expense for restricted stock awards over the service period, but did not recognize compensation expense for stock options, since the options were granted at market value on the date of grant.

The following table details the effect on net earnings and earnings per share "as reported" and as if compensation expense had been recorded through the end of the second quarter of fiscal 2005, in fiscal 2004 and fiscal 2003, based on the fair value method under SFAS No. 123, "Accounting for Stock-Based Compensation" ("pro forma").

	FISCAL YEAR ENDED		
(in thousands, except per share data)	**February 25, 2006**	February 26, 2005	February 28, 2004
Net Earnings:			
As reported	**$ 572,847**	$ 504,964	$ 399,470
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	**(31,415)**	(34,686)	(29,372)
Add: Total stock-based employee compensation expense included in net earnings, net of related tax effects	**16,008**	—	—
Pro forma	**$ 557,440**	$ 470,278	$ 370,098
Net Earnings Per Share:			
Basic:			
As reported	**$ 1.95**	$ 1.68	$ 1.35
Pro forma	**$ 1.90**	$ 1.56	$ 1.25
Diluted:			
As reported	**$ 1.92**	$ 1.65	$ 1.31
Pro forma	**$ 1.87**	$ 1.55	$ 1.23

Stock-based compensation expense for the fiscal year ended February 25, 2006, which includes the expense of stock options beginning in the third quarter of fiscal 2005 and restricted stock awards from the date of grant, was $25.6 million ($16.0 million after tax or $0.05 per diluted share). The amount of stock-based compensation cost capitalized as of February 25, 2006 was approximately $0.9 million.

Incentive Compensation Plans

During fiscal 2004, in anticipation of adopting SFAS No. 123R, the Company revised its overall approach to compensation for its employees, including stock-based compensation, and 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. As a result, during fiscal 2005, awards consisting of a combination of stock options and performance-based restricted stock were granted to executive officers and other executives and awards consisting of restricted stock were granted to the Company's other employees who traditionally have received stock options. Awards of stock options and restricted stock generally vest in five equal annual installments beginning one to three years from the date of grant.

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. The Company generally issues new shares for stock option exercises and restricted stock awards. The number of shares and price per share is determined by the Compensation Committee for those awards granted to executive officers and by an appropriate committee for all other awards granted.

As of February 25, 2006, unrecognized compensation expense related to the unvested portion of the Company's stock options and restricted stock awards was $123.1 million and $33.1 million, respectively, which is expected to be recognized over a weighted average period of 3.6 years and 5.2 years, respectively.

Stock Options

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. Option grants for stock options issued since May 10, 2004 expire eight years after the date of grant. All option grants are non-qualified. The fair value of the stock options granted was estimated on the date of the grant using a Black-Scholes option-pricing model that uses the assumptions noted in the following table.

	FISCAL YEAR ENDED		
Black-Scholes Valuation Assumptions [1]	**February 25, 2006**	February 26, 2005	February 28, 2004
Weighted Average Expected Life (in years) [2]	**6.1**	6.1	5.9
Weighted Average Expected Volatility [3]	**25.00%**	42.00%	45.00%
Weighted Average Risk Free Interest Rates [4]	**4.02%**	3.89%	2.96%
Expected Dividend Yield	**—**	—	—

[1] Beginning on the date of adoption, forfeitures are estimated based on historical experience; prior to the date of adoption, forfeitures were recorded as they occurred.
[2] The expected life of stock options is estimated based on historical experience.
[3] The expected volatility is estimated based on historical and current financial data for the Company.
[4] Based on the U.S. Treasury constant maturity interest rate whose term is consistent with the expected life of the stock options.

Changes in the Company's stock options for the fiscal year ended February 25, 2006 were as follows:

(Shares in thousands)	Number of Stock Options	Weighted Average Exercise Price
Options outstanding, beginning of year	24,835	$ 25.73
Granted	857	37.64
Exercised	(2,300)	15.15
Forfeited or expired	(803)	33.25
Options outstanding, end of year	22,589	$ 27.01
Options exercisable, end of year	9,954	$ 20.63

The weighted average fair value for the stock options granted in fiscal 2005, fiscal 2004 and fiscal 2003 was $12.71, $17.16 and $16.29, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options outstanding as of February 25, 2006 was 5.5 years and $215.9 million, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options exercisable as of February 25, 2006 was 5.4 years and $155.7 million, respectively. The total intrinsic value for stock options exercised during fiscal 2005, fiscal 2004 and fiscal 2003 was $60.7 million, $71.7 million and $168.4 million, respectively.

Net cash proceeds from the exercise of stock options for fiscal 2005 was $35.0 million and the associated income tax benefit was $22.7 million for that same time period.

Restricted Stock

Restricted stock awards are issued and measured 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.

Vesting of restricted stock awarded to certain of the Company's executives is dependent on the Company's achievement of a performance-based test for the fiscal year of grant, and assuming achievement of the performance-based test, time vesting, subject, in general, to the executive remaining in the Company's employ on specified vesting dates. The Company recognizes compensation expense related to these awards based on the assumption that the performance-based test will be achieved. Vesting of restricted stock awarded to the Company's other employees is based solely on time vesting.

Changes in the Company's restricted stock for the fiscal year ended February 25, 2006 were as follows:

(Shares in thousands)	Number of Restricted Shares	Weighted Average Grant – Date Fair Value
Unvested restricted stock, beginning of year	—	$ —
Granted	1,072	37.00
Vested	—	—
Forfeited	(41)	37.12
Unvested restricted stock, end of year	1,031	$ 37.00

13. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

(in thousands, except per share data)	FISCAL 2005 QUARTER ENDED			
	May 28, 2005	August 27, 2005	November 26, 2005	February 25, 2006
Net sales	$ 1,244,421	$ 1,431,182	$ 1,448,680	$ 1,685,279
Gross profit	520,781	601,784	615,363	747,820
Operating profit	150,884	217,877	205,493	304,917
Earnings before provision for income taxes	157,992	225,882	215,048	316,169
Provision for income taxes	59,089	84,480	80,428	118,247
Net earnings	$ 98,903	$ 141,402	$ 134,620	$ 197,922
EPS-Basic (1)	$ 0.34	$ 0.48	$ 0.45	$ 0.68
EPS-Diluted (1)	$ 0.33	$ 0.47	$ 0.45	$ 0.67

(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

[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.

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 25, 2006 and February 26, 2005, 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 25, 2006. 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 25, 2006 and February 26, 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended February 25, 2006, 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 25, 2006, 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, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payments."

KPMG LLP

New York, New York
May 11, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (CONTINUED)

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting that Bed Bath & Beyond Inc. and subsidiaries maintained effective internal control over financial reporting as of February 25, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Bed Bath & Beyond Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Bed Bath & Beyond Inc. and subsidiaries maintained effective internal control over financial reporting as of February 25, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Bed Bath & Beyond Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of February 25, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Bed Bath & Beyond Inc. and subsidiaries as of February 25, 2006 and February 26, 2005, 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 25, 2006, and our report dated May 11, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

New York, New York
May 11, 2006

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as of February 25, 2006. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Our management has concluded that, as of February 25, 2006, our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, KPMG LLP, issued an audit report on our assessment of our internal control over financial reporting, which is included herein.

May 12, 2006

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
Chief Executive Officer,
Bed Bath & Beyond Inc.

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

Stanley F. Barshay
Chairman, Schering-Plough Consumer
HealthCare Corporation
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
Senior Director, 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
Chief Executive Officer

Arthur Stark
President and Chief Merchandising Officer

Eugene A. Castagna
Chief Financial Officer and Treasurer

Matthew Fiorilli
Senior Vice President - Stores

Ronald Curwin
Senior Vice President - Investor Relations

Richard C. McMahon
Chief Strategy Officer and Vice President -
Corporate Operations

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.

Richard S. Acciarito
Vice President - Corporate Operations -
Harmon Stores, Inc.

Charles E. Arnold
Vice President - Stores - Southwest Region

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

Robert Claybrook
Vice President - Business Application
Development

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

Robyn M. D'Elia
Vice President - Controller

David S. Denenberg
Vice President - Merchandise Control

Salvatore J. Dimino
Vice President - Stores - Southeast Region

Martin Eisenberg
Vice President - Stores - Northeast Region

Alan M. Freeman
Vice President - Real Estate Counsel

Francis Garrity
Vice President - Stores - Midwest Region
(Detroit)

Seth D. Geldzahler
Vice President - Real Estate

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

Alan Jacobson
Vice President - Stores - Harmon Stores, Inc.

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

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

Patrick M. Kelley
Vice President - Stores - Western Region

Edward Kopil
Vice President - Stores - Christmas Tree Shops,
Inc.

Susan E. Lattmann
Vice President - Finance

Rita Little
Vice President - Marketing

Jeffrey W. Macak
Vice President - Supply Chain Logistics

John Mariani
Vice President - Store Systems

Nika Markus
Vice President - Merchandise Planning and
Allocation

Teresa A. Miller
Vice President - Purchasing

Kevin R. Murphy
Vice President - Chief Information Officer

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

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

Jim O'Connor
Vice President - Safety and Loss Prevention

William Onksen
Vice President - Stores - MidAtlantic and
Midwest Regions

Dana Pelan
Vice President - Stores - Midwest Region
(Chicago)

Christine R. Pirog
Vice President - Store Operations

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

Ross Richman
Vice President - Financial Operations Analysis

Hank Reinhart
Vice President - Customer Service and Bridal

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 2005 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 29, 2006, 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 2005 and fiscal 2004:

QUARTER	HIGH	LOW
FISCAL 2005		
First	**$40.80**	**$35.57**
Second	**46.84**	**40.65**
Third	**43.18**	**37.01**
Fourth	**43.33**	**35.50**
FISCAL 2004		
First	$41.90	$35.39
Second	39.75	33.89
Third	44.09	36.72
Fourth	41.58	36.99

At May 2, 2006, there were approximately 3,300 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 25, 2006)

BED BATH & BEYOND STORES

State	Stores	State	Stores
Alabama	9	Nebraska	4
Arizona	15	Nevada	5
Arkansas	3	New Hampshire	6
California	84	New Jersey	33
Colorado	20	New Mexico	3
Connecticut	12	New York	49
Delaware	1	North Carolina	22
Florida	55	North Dakota	2
Georgia	21	Ohio	32
Idaho	4	Oklahoma	5
Illinois	32	Oregon	8
Indiana	16	Pennsylvania	26
Iowa	6	Rhode Island	3
Kansas	7	South Carolina	12
Kentucky	7	Tennessee	14
Louisiana	10	Texas	60
Maine	2	Utah	9
Maryland	16	Vermont	1
Massachusetts	20	Virginia	23
Michigan	28	Washington	17
Minnesota	9	West Virginia	1
Mississippi	4	Wisconsin	9
Missouri	12	District of Columbia	1
Montana	1	Puerto Rico	3
		Total	**742**

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

CHRISTMAS TREE SHOPS STORES

State	Stores
Connecticut	3
Maine	1
Massachusetts	16
New Hampshire	2
New Jersey	1
New York	3
Rhode Island	2
Vermont	1
Total	**29**

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

HARMON STORES

State	Stores
Connecticut	2
New Jersey	27
New York	9
Total	**38**

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
908-688-0888

Made with 50% Recycled Paper
(30% Post-Consumer Content)