**Chapter 16 Case:**

**Bed, Bath & Beyond**

Suppose Bed Bath & Beyond, a chain of stores selling bed linens, bath items, and home and kitchen furnishings, decides to acquire Pier 1 Imports, Inc., a retail chain that sells furniture and home furnishings, dining and kitchen goods, and bath and bedding accessories.

At the end of fiscal year 2001, Pier 1 has 96.3 million shares outstanding, currently trading at $17.05 apiece. Suppose Bed, Bath & Beyond pays $21.31 per Pier 1 share. At its current share price of $33.90, Bed Bath & Beyond will have to issue 60.5 million shares to pay for the acquisition.

The income statements and balance sheets for both companies are in the spreadsheet Worksheet Chapter 15 - Bed Bath Beyond [provided separately].

1. Assume Bed Bath & Beyond acquires 100 percent of Pier 1, and that the transaction takes place at fiscal year end 2001. *Prepare a consolidating balance sheet to reflect the acquisition at time of acquisition. Then, prepare an income statement for fiscal year 2002, the year following the acquisition.*

Assume that:

The book values of Pier 1's assets and liabilities are equal to their fair mark values.

There is a total of $500 million in identifiable intangible assets, which will be amortized for 20 years using the straight-line method.

The tax rate is 38 percent.

1. *Compute the following for Bed Bath & Beyond, pre- and post-merger, and in the appropriate parts of the table that follows:*

Before Merger After Merger

*Gross margin*

*Operating margin*

*Net margin*

*EPS*

*Accretion (Dilution)$*

*Accretion (Dilution)%*