Capitalizing Operating Leases

01 Agenda

Capitalizing Operating Leases

- What are leases?
- What are capital and operating leases?
- Why should analysts capitalize operating leases?
- How do you capitalize operating leases?

02 What are leases?

What are leases?

- Leases are contracts between lessees and lessors. Lessees acquire the right to use property from lessors.
- For example, Best Buy is a lessee when it leases a store in a mall. The mall owner is the lessor.

03 Whole Foods' Fiscal 2009 BS

Whole Foods Market, Inc.
Consolidated Balance Sheets
(In thousands)
September 27, 2009 and September 28, 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	$ 430,130	$ 30,534
Restricted cash	71,023	617
Accounts receivable	104,731	115,424
Merchandise inventories	310,602	327,452
Prepaid expenses and other current assets	51,137	68,150
Deferred income taxes	87,757	80,429
Total current assets	1,055,380	622,606
Property and equipment, net of accumulated depreciation and amortization	1,897,853	1,900,117
Goodwill	658,254	659,559
Intangible assets, net of accumulated amortization	73,035	78,499
Deferred income taxes	91,000	109,002
Other assets	7,866	10,953
Total assets	$ 3,783,388	$ 3,380,736
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt and capital lease obligations	$ 389	$ 380
Accounts payable	189,597	183,134
Accrued payroll, bonus and other benefits due team members	207,983	196,233
Dividends payable	8,217	-
Other current liabilities	277,838	286,430
Total current liabilities	684,024	666,177
Long-term debt and capital lease obligations, less current installments	738,848	928,790
Deferred lease liabilities	250,326	199,635
Other long-term liabilities	69,262	80,110
Total liabilities	1,742,460	1,874,712
Series A redeemable preferred stock, $0.01 par value, 425 and no shares authorized, issued and outstanding in 2009 and 2008, respectively	413,052	-
Shareholders' equity:		
Common stock, no par value, 300,000 shares authorized; 140,542 and 140,286 shares issued and outstanding in 2009 and 2008, respectively	1,283,028	1,266,141
Accumulated other comprehensive income (loss)	(13,367)	422
Retained earnings	358,215	239,461
Total shareholders' equity	1,627,876	1,506,024
Commitments and contingencies		
Total liabilities and shareholders' equity	$ 3,783,388	$ 3,380,736

The accompanying notes are an integral part of these consolidated financial statements.

04 Whole Foods' Fiscal 2009 leases footnote

(10) Leases

The Company is committed under certain capital leases for rental of equipment, buildings, and land and certain operating leases for rental of facilities and equipment. These leases expire or become subject to renewal clauses at various dates from 2010 to 2054. Amortization of equipment under capital lease is included with depreciation expense.

Rental expense charged to operations under operating leases for fiscal years 2009, 2008 and 2007 totaled approximately $281.9 million, $257.5 million and $201.0 million, respectively.

Minimum rental commitments and sublease rental income required by all noncancelable leases are approximately as follows (in thousands):

	Capital	Operating	Sublease
Fiscal year 2010	$ 2,066	$ 265,408	$ 6,481
Fiscal year 2011	2,066	287,365	5,802
Fiscal year 2012	2,087	304,124	5,395
Fiscal year 2013	2,084	308,214	4,840
Fiscal year 2014	2,098	310,911	4,015
Future fiscal years	28,639	4,174,296	12,692
	39,040	$ 5,650,318	$ 39,225
Less amounts representing interest	20,391		
Net present value of capital lease obligations	18,649		
Less current installments	389		
Long-term capital lease obligations, less current installments	$ 18,260		

The present values of future minimum obligations for capital leases shown above are calculated based on interest rates determined at the inception of the lease, or upon acquisition of the original lease.

During fiscal years 2009, 2008 and 2007, we paid contingent rentals totaling approximately $9.4 million, $10.8 million and $9.9 million, respectively. During fiscal year 2007, we recorded an asset retirement obligation associated with operating leases totaling approximately $825,000. No asset retirement obligations associated with operating leases were incurred during fiscal year 2009 or 2008. Sublease rental income totaled approximately $6.3 million, $5.4 million and $3.9 million during fiscal years 2009, 2008 and 2007, respectively. John Mackey and Glenda Chamberlain, executive officers of the Company, own approximately 51% and 2%, respectively, of BookPeople, Inc., a retailer of books and periodicals that is unaffiliated with the Company, which leases retail space in Austin, Texas from the Company. The lease is set to expire or become subject to its renewal clause in 2015. The lease provides for an aggregate annual minimum rent of approximately $0.5 million, $0.5 million, and $0.4 million which the Company received in rental income in fiscal years 2009, 2008 and 2007, respectively.

(11) Income Taxes

Components of income tax expense attributable to continuing operations are as follows (in thousands):

	2009	2008	2007
Current federal income tax	$ 64,680	$ 62,835	$ 114,503
Current state income tax	23,974	22,906	34,138
Current foreign income tax	1,536	6,758	389
Total current tax	90,190	92,499	149,030
Deferred federal income tax	15,347	(1,086)	(17,014)
Deferred state income tax	(1,258)	(1,589)	(5,091)
Deferred foreign income tax	(141)	2,171	(5,098)
Total deferred tax	13,948	(504)	(27,203)
Total income tax expense	$ 104,138	$ 91,995	$ 121,827

05 What are capital and operating leases?

What are capital and operating leases?

- For accounting purposes, leases are classified as capital or operating leases.
- At issue with this decision is whether the long-term benefits and costs associated with leases should be recognized as assets and liabilities. The asset relates to the benefits that will be derived from the right to use leased stores in the future, and the liability relates to the obligation to make future lease payments to lessors.
- **Capital leases**
  - When a lease is classified as capital, an asset (PP&E) and liability (Long-term debt) are recognized by the lessee when leased property is put into service. They are recognized at the present value of the lease's future benefits and obligations at this date.
  - When leases meet certain criteria that try to capture the idea that the lessee has effectively assumed the risks and rewards associated with ownership, they must be capitalized (as assets and liabilities).
- **Operating leases**
  - Under current GAAP, assets and liabilities are **not** recognized on the lessee's balance sheet because the lessee has not effectively assumed the risks and rewards of ownership. Instead the lessee expenses lease costs as incurred.
  - This GAAP will likely change in the next few years, with all leases capitalized.

06 Why should analysts capitalize operating leases?

Why should analysts capitalize operating leases?

- The criteria that determine when a lease must be capitalized are strict in that there is no room for leeway in lease classifications once a lease contract is specified.
- However, it is common practice for lessors and lessees to structure lease contracts so they barely fail to meet the capitalization criteria.
- Moreover, it is common practice for noncancelable operating leases to extend for 15-25 years or longer.
- In these situations, companies have **off-balance sheet financing** since the economic obligations associated with these leases are not recognized on the balance sheet as liabilities.
- If analysts compute ratios using numbers reported on balance sheets, rather than adjusting these numbers by capitalizing operating leases, often the ratios will be highly unreliable measures of the underlying economic activity.
- This is particularly true for financial leverage ratios and asset turnover ratios.

07 CVS Caremark's 2009 BS

Consolidated Balance Sheets

In millions, except per share amounts	December 31, 2009	2008
Assets:		
Cash and cash equivalents	**$ 1,086**	$ 1,352
Short-term investments	**5**	—
Accounts receivable, net	**5,457**	5,384
Inventories	**10,343**	9,153
Deferred income taxes	**506**	435
Other current assets	**140**	202
Total current assets	**17,537**	16,526
Property and equipment, net	**7,923**	8,125
Goodwill	**25,680**	25,494
Intangible assets, net	**10,127**	10,446
Other assets	**374**	369
Total assets	**$61,641**	$60,960
Liabilities:		
Accounts payable	**$ 3,560**	$ 3,801
Claims and discounts payable	**3,075**	2,814
Accrued expenses	**3,246**	3,178
Short-term debt	**315**	3,044
Current portion of long-term debt	**2,104**	653
Total current liabilities	**12,300**	13,490
Long-term debt	**8,756**	8,057
Deferred income taxes	**3,678**	3,702
Other long-term liabilities	**1,102**	1,137
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interest	**37**	—
Shareholders' equity:		
Preferred stock, par value $0.01: 0.1 shares authorized; none issued or outstanding	—	—
Preference stock, series one ESOP convertible, par value $1.00: 50 shares authorized; no issued and outstanding shares at December 31, 2009 and 4 shares issued and outstanding at December 31, 2008	—	191
Common stock, par value $0.01: 3,200 shares authorized; 1,612 shares issued and 1,391 shares outstanding at December 31, 2009 and 1,603 shares issued and 1,436 shares outstanding at December 31, 2008	**16**	16
Treasury stock, at cost: 219 shares at December 31, 2009 and 165 shares at December 31, 2008	**(7,610)**	(5,812)
Shares held in trust: 2 shares at December 31, 2009 and 2008	**(56)**	(56)
Capital surplus	**27,198**	27,280
Retained earnings	**16,355**	13,098
Accumulated other comprehensive loss	**(135)**	(143)
Total shareholders' equity	**35,768**	34,574
Total liabilities and shareholders' equity	**$61,641**	$60,960

See accompanying notes to consolidated financial statements.

08 CVS Caremark's 2009 Leases Footnote

On July 1, 2009, the Company issued a $300 million unsecured floating rate senior note due January 30, 2011 (the "the 2009 Floating Rate Note"). The 2009 Floating Rate Note pays interest quarterly. The net proceeds from the 2009 Floating Rate Note were used for general corporate purposes.

On September 8, 2009, the Company issued $1.5 billion of 6.125% unsecured senior notes due September 15, 2039 (the "September 2009 Notes"). The September 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay a portion of the Company's outstanding commercial paper borrowings, $650 million of unsecured senior notes and for general corporate purposes.

On September 10, 2008, the Company issued $350 million of floating rate senior notes due September 10, 2010 (the "2008 Notes"). The 2008 Notes pay interest quarterly and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest. The net proceeds from the 2008 Notes were used to fund a portion of the Longs Acquisition.

On May 22, 2007, the Company issued $1.75 billion of floating rate senior notes due June 1, 2010, $1.75 billion of 5.75% unsecured senior notes due June 1, 2017, and $1.0 billion of 6.25% unsecured senior notes due June 1, 2027 (collectively the "2007 Notes"). Also on May 22, 2007, the Company entered into an underwriting agreement pursuant to which the Company agreed to issue and sell $1.0 billion of Enhanced Capital Advantaged Preferred Securities ("ECAPS") due June 1, 2062 to the underwriters. The ECAPS bear interest at 6.30% per year until June 1, 2012 at which time they will pay interest based on a floating rate. The 2007 Notes and ECAPS pay interest semi-annually and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest. The net proceeds from the 2007 Notes and ECAPS were used to repay a portion of the bridge credit facility and commercial paper borrowings used to fund a portion of the Longs Acquisition purchase price and retire $353 million of debt assumed as part of the Longs Acquisition.

The credit facilities, back-up credit facilities, unsecured senior notes and ECAPS contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2009 are $2.1 billion in 2010, $1.1 billion in 2011, $1.0 billion in 2012, $5 million in 2013 and $555 million in 2014.

6 Leases

The Company leases most of its retail and mail locations, 11 of its distribution centers and certain corporate offices under non-cancelable operating leases, with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, with initial terms of 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

The following table is a summary of the Company's net rental expense for operating leases for the respective years:

In millions	**2009**	2008	2007
Minimum rentals	**$1,857**	$1,691	$1,557
Contingent rentals	**61**	58	65
	1,918	1,749	1,622
Less: sublease income	**(19)**	(25)	(21)
	$1,899	$1,724	$1,601

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2009:

In millions	Capital Leases	Operating Leases
2010	$ 17	$ 2,094
2011	17	1,877
2012	18	1,953
2013	18	1,855
2014	18	1,657
Thereafter	236	17,477
Total future lease payments	$ 324	$ 26,913
Less: imputed interest	(170)	
Present value of capital lease obligations	$ 154	

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are sold at fair value, which approximates net book value, and the resulting leases qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the above table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled $1.6 billion in 2009. This compares to $204 million in 2008 and $601 million in 2007.

09 How do you capitalize CVS Caremark's operating leases?

Outsiders' Goal

- Create a new balance sheet that reports an asset and liability equal to the present value of the minimum future operating lease payments (for property leased and in use at the balance sheet date).
- The future benefit associated with the asset is the right to use the leased property during the remainder of the lease term.
- The liability represents the obligation to make the minimum operating lease payments.

Outsiders' Challenges

- Spread the “thereafter” cash flows over future years.
- Select an appropriate discount rate

Present Value of CVS Caremark's Operating Leases at December 31, 2009

Reported (in millions)		Reported or Estimated	
2010	$2,094	2010	$2,094
2011	$1,877	2011	$1,877
2012	$1,953	2012	$1,953
2013	$1,855	2013	$1,855
2014	$1,657	2014	$1,657
Thereafter	$17,477	2015	
Total	$26,913	2016	
		2017	
		2018	
		2019	
		2020	
		2021	
		2022	
		2023	
		2024	
		2025	
		2026	
		2027	
		2028	
		2029	

10 Spreading CVS Caremark's "thereafter" cash flows

Present Value of CVS Caremark's Operating Leases at December 31, 2009

Reported (in millions)		Reported or Estimated	
2010	$2,094	2010	$2,094
2011	$1,877	2011	$1,877
2012	$1,953	2012	$1,953
2013	$1,855	2013	$1,855
2014	$1,657	2014	$1,657
Thereafter	$17,477	2015	$1,657
Total	$26,913	2016	$1,657
		2017	$1,657
		2018	$1,657
		2019	$1,657
		2020	$1,657
		2021	$1,657
		2022	$1,657
		2023	$1,657
		2024	$1,657
		2025	$907

11 Selecting a discount rate for Caremark

4 Share Repurchase Program

On November 4, 2009, the Company's Board of Directors authorized, effective immediately, a share repurchase program for up to $2.0 billion of its outstanding common stock (the "2009 Repurchase Program"). The share repurchase program expires in December 2011 and permits the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions and/or accelerated share repurchase programs. From November 4, 2009 through December 31, 2009, the Company repurchased 16.1 million shares of common stock for approximately $500 million pursuant to the 2009 Repurchase Program. The 2009 Repurchase Program may be modified, extended or terminated by the Company's Board of Directors at any time.

On May 7, 2008, the Company's Board of Directors authorized, effective May 21, 2008, a share repurchase program for up to $2.0 billion of its outstanding common stock (the "2008 Repurchase Program"). From May 21, 2008 through December 31, 2008, the Company repurchased approximately 0.6 million shares of common stock for $23 million under the 2008 Repurchase Program. During the year ended December 31, 2009, the Company repurchased approximately 57.0 million shares of common stock for approximately $2.0 billion completing the 2008 Repurchase Program.

On May 9, 2007, the Company's Board of Directors authorized a share repurchase program for up to $5.0 billion of its outstanding common stock. The share repurchase program was completed during 2007 through a $2.5 billion fixed dollar accelerated share repurchase agreement (the "May ASR agreement"), under which final settlement occurred in October 2007 and resulted in the repurchase of approximately 67.5 million shares of common stock; an open market repurchase program, which concluded in November 2007 and resulted in approximately 5.3 million shares of common stock being repurchased for approximately $212 million; and a $2.3 billion dollar fixed accelerated share repurchase agreement (the "November ASR agreement"), which resulted in an initial 51.6 million shares of common stock being purchased and placed into treasury stock as of December 29, 2007. The final settlement under the November ASR agreement occurred on March 28, 2008 and resulted in the Company receiving an additional 5.7 million shares of common stock, which were placed into treasury stock as of March 29, 2008.

5 Borrowing and Credit Agreements

The following table is a summary of the Company's borrowings as of December 31:

In millions	2009	2008
Commercial paper	**$ 315**	$ 2,544
Bridge credit facility	—	500
4.0% senior notes due 2009	—	650
Floating rate notes due 2010(1)	**350**	350
Floating rate notes due 2010(1)	**1,750**	1,750
5.75% senior notes due 2011	**800**	800
Floating rate note due 2011(1)	**300**	—
4.875% senior notes due 2014	**550**	550
6.125% senior notes due 2016	**700**	700
5.75% senior notes due 2017	**1,750**	1,750
6.25% senior notes due 2027	**1,000**	1,000
6.60% senior notes due 2019	**1,000**	—
6.125% note due 2039	**1,500**	—
6.302% Enhanced Capital Advantage Preferred Securities	**1,000**	1,000
Mortgage notes payable	**6**	7
Capital lease obligations	**154**	153
	11,175	11,754
Less:		
Short-term debt	**(315)**	(3,044)
Current portion of long-term debt	**(2,104)**	(653)
	$ 8,756	$ 8,057

(1) As of December 31, 2009, the weighted average interest rate for the Company's floating rate notes due in 2010 was 0.87%.

In connection with its commercial paper program, the Company maintains a $675 million, five-year unsecured back-up credit facility, which expires on June 2, 2010, a $1.4 billion, five-year unsecured back-up credit facility, which expires on May 12, 2011 and a $1.3 billion, five-year unsecured back-up credit facility, which expires on March 12, 2012. The credit facilities allow for borrowings at various rates depending on the Company's public debt ratings and require the Company to pay a quarterly facility fee of 0.1%, regardless of usage. As of December 31, 2009, the Company had no outstanding borrowings against the back-up credit facilities. The weighted average interest rate for short-term debt was 0.31% as of December 31, 2009 and 5.36% as of December 31, 2008.

On March 10, 2009, the Company issued $1.0 billion of 6.60% unsecured senior notes due March 15, 2019 (the "March 2009 Notes"). The March 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay the bridge credit facility, a portion of the Company's outstanding commercial paper borrowings and for general corporate purposes.

12 PV of CVS's op leases at end of 2009: using PV tables

Present Value of CVS Caremark's Operating Leases at December 31, 2009

Reported (in millions)		Reported or Estimated			
			Present value using table with 5% discount rate		
			Future value	Discount factor	Present value
2010	$2,094	2010	$2,094	0.9524	$1,994
2011	$1,877	2011	$1,877	0.9070	$1,702
2012	$1,953	2012	$1,953	0.8638	$1,687
2013	$1,855	2013	$1,855	0.8227	$1,526
2014	$1,657	2014	$1,657	0.7835	$1,298
Thereafter	$17,477	2015	$1,657	0.7462	$1,236
Total	$26,913	2016	$1,657	0.7107	$1,178
		2017	$1,657	0.6768	$1,122
		2018	$1,657	0.6446	$1,068
		2019	$1,657	0.6139	$1,017
		2020	$1,657	0.5847	$969
		2021	$1,657	0.5568	$923
		2022	$1,657	0.5303	$879
		2023	$1,657	0.5051	$837
		2024	$1,657	0.4810	$797
		2025	$907	0.4581	$416
				Total	**$18,649**

13 PV of CVS's op leases at end of 2009: using Excel

Present Value of CVS Caremark's Operating Leases at December 31, 2009

Reported (in millions)		Reported or Estimated			
		Present value using Excel NPV function with 5% discount rate		Present value using table with 5% discount rate	
				Discount factor	Present value
2010	$2,094	2010	$2,094	0.9524	$1,994
2011	$1,877	2011	$1,877	0.9070	$1,702
2012	$1,953	2012	$1,953	0.8638	$1,687
2013	$1,855	2013	$1,855	0.8227	$1,526
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Thereafter	$17,477	2015	$1,657	0.7462	$1,236
Total	$26,913	2016	$1,657	0.7107	$1,178
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		2018	$1,657	0.6446	$1,068
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		2020	$1,657	0.5847	$969
		2021	$1,657	0.5568	$923
		2022	$1,657	0.5303	$879
		2023	$1,657	0.5051	$837
		2024	$1,657	0.4810	$797
		2025	$907	0.4581	$416
		PV =	**$18,649**	**Total**	**$18,649**

14 PV of CVS's op leases at end of 2009: sensitivity analysis

Present Value of CVS Caremark's Operating Leases at December 31, 2009

Reported (in millions)		Reported or Estimated			
		Present value using Excel NPV function with 5% discount rate		Present value using table with 5% discount rate	
				Discount factor	Present value
2010	$2,094	2010	$2,094	0.9524	$1,994
2011	$1,877	2011	$1,877	0.9070	$1,702
2012	$1,953	2012	$1,953	0.8638	$1,687
2013	$1,855	2013	$1,855	0.8227	$1,526
2014	$1,657	2014	$1,657	0.7835	$1,298
Thereafter	$17,477	2015	$1,657	0.7462	$1,236
Total	$26,913	2016	$1,657	0.7107	$1,178
		2017	$1,657	0.6768	$1,122
		2018	$1,657	0.6446	$1,068
		2019	$1,657	0.6139	$1,017
		2020	$1,657	0.5847	$969
		2021	$1,657	0.5568	$923
		2022	$1,657	0.5303	$879
		2023	$1,657	0.5051	$837
		2024	$1,657	0.4810	$797
		2025	$907	0.4581	$416
		PV =	**$18,649**	**Total**	**$18,649**

Sensitivity Analysis

Discount Rate	Present Value
4%	$19,963
5%	$18,649
6%	$17,464

15 PV of CVS's op. leases at end of 2008

Present Value of CVS Caremark's Operating Leases at December 31, 2008

Reported (in millions)		Reported or Estimated: Present value using Excel NPV function with 5% discount rate		Reported or Estimated: Present value using table with 5% discount rate: Discount factor	Reported or Estimated: Present value using table with 5% discount rate: Present value
2009	$1,744.2	2009	$1,744.2	0.9524	$1,661.1
2010	$1,854.4	2010	$1,854.4	0.9070	$1,682.0
2011	$1,609.0	2011	$1,609.0	0.8638	$1,389.9
2012	$1,682.6	2012	$1,682.6	0.8227	$1,384.3
2013	$1,583.4	2013	$1,583.4	0.7835	$1,240.6
Thereafter	$14,821.0	2014	$1,583.4	0.7462	$1,181.6
Total	$23,294.6	2015	$1,583.4	0.7107	$1,125.3
		2016	$1,583.4	0.6768	$1,071.7
		2017	$1,583.4	0.6446	$1,020.7
		2018	$1,583.4	0.6139	$972.1
		2019	$1,583.4	0.5847	$925.8
		2020	$1,583.4	0.5568	$881.7
		2021	$1,583.4	0.5303	$839.7
		2022	$1,583.4	0.5051	$799.7
		2023	$570.4	0.4810	$274.4
		2024	$0.0	0.4581	$0.0
		PV =	**$16,450.6**	**Total**	**$16,450.6**

Sensitivity Analysis

Discount Rate	Present Value
4%	$17,555.1
5%	$16,450.6
6%	$15,448.6

16 Caremark's ratios with & without capitalizing operating leases

CVS Caremark's Financial Leverage and Turnover

With & Without Capitalizing Operating Leases

	Reported (which includes capital leases)	With operating leases capitalized		
		4% discount rate	5% discount rate	6% discount rate
December 31, 2008 (in millions)				
Present value of operating leases		$17,555	$16,451	$15,449
Total assets	$60,960	$78,515	$77,411	$76,409
Total liabilities	$26,386	$43,941	$42,837	$41,835
Total owners' equity	$34,574	$34,574	$34,574	$34,574
Total assets/ Total owners' equity	1.76	2.27	2.24	2.21
Total liabilities/Total assets	43.3%	56.0%	55.3%	54.8%
December 31, 2009 (in millions)				
Present value of operating leases		$19,963	$18,649	$17,464
Total assets	$61,641	$81,604	$80,290	$79,105
Total liabilities	$25,873	$45,836	$44,522	$43,337
Total owners' equity	$35,768	$35,768	$35,768	$35,768
Total assets/ Total owners' equity	1.72	2.28	2.24	2.21
Total liabilities/Total assets	42.0%	56.2%	55.5%	54.8%
Year ended December 31, 2009 (in millions)				
Revenues	$98,729	$98,729	$98,729	$98,729
Average Assets	$61,301	$80,060	$78,850	$77,757
Turnover	1.61	1.23	1.25	1.27

17 Whole Foods' Ratios with & without capitalizing leases

Whole Foods' Financial Leverage and Turnover

With & Without Capitalizing Operating Leases

	Reported (which includes capital leases)	With operating leases capitalized		
		4% discount rate	5% discount rate	6% discount rate
September 28, 2008 (in thousands)				
Present value of operating leases		$4,138,838	$3,803,341	$3,506,818
Total assets	$3,380,736	$7,519,574	$7,184,077	$6,887,554
Total liabilities	$1,874,712	$6,013,550	$5,678,053	$5,381,530
Total owners' equity	$1,506,024	$1,506,024	$1,506,024	$1,506,024
Total assets/ Total owners' equity	2.24	4.99	4.77	4.57
Total liabilities/Total assets	55.5%	80.0%	79.0%	78.1%
September 27, 2009 (in thousands)				
Present value of operating leases		$3,924,921	$3,614,063	$3,338,480
Total assets	$3,783,388	$7,708,309	$7,397,451	$7,121,868
Total liabilities	$2,155,512	$6,080,433	$5,769,575	$5,493,992
Total owners' equity	$1,627,876	$1,627,876	$1,627,876	$1,627,876
Total assets/ Total owners' equity	2.32	4.74	4.54	4.37
Total liabilities/Total assets	57.0%	78.9%	78.0%	77.1%
Year ended September 27, 2009 (in thousands)				
Revenues	$8,031,620	$8,031,620	$8,031,620	$8,031,620
Average Assets	$3,582,062	$7,613,941	$7,290,764	$7,004,711
Turnover	2.24	1.05	1.10	1.15

18 Questions to ponder

How are the following affected by capitalizing operating leases?

	Increase	Decrease	No effect
Revenues	☐	☐	☐
Total assets	☐	☐	☐
Total liabilities	☐	☐	☐
Total owners' equity	☐	☐	☐
Financial leverage	☐	☐	☐
Asset Turnover	☐	☐	☐