

## Off-Balance Sheet Debt

### *Raising Red Flags on Misleading Earnings*

#### Trust

We deliver the whole truth by incorporating critical data from the Financial Footnotes and MD&A that other firms miss.

#### Performance

The value and success of our ratings are unrivaled. Click here for proof.

#### More Reports

Click here and enter a ticker to buy more of our reports.



- Over 2,900 companies have misleading earnings due to off-balance sheet debt.
- We analyze operating lease data in the Financial Footnotes of 50,000+ filings to determine off-balance sheet debt.
- The 10 S&P 500 companies with the most off-balance sheet debt as a percent of total assets are shown in Figure 1.
- Over \$509 billion of debt is buried in the Financial Footnotes of the S&P 500 in the last fiscal year.
- The 100 companies with the most misleading earnings due to operating leases are in the Appendices.
- Appendix A reveals 21 companies that have more off-balance sheet debt than reported total assets.
- Appendix B reveals 40 companies whose market value is less than off-balance sheet debt.
- Our Company Valuation Reports include analysis of off-balance sheet debt and 14 other major adjustments. Click [here](#) to purchase a report.

**Figure 1: The Most Distorted Balance Sheets in the S&P 500**

Ticker	Company Name	Operating Leases as % of Total Assets
WFMI	Whole Food Market	97%
WAG	Walgreen Co.	94%
ANF	Abercrombie & Fitch Co Cl A	81%
SBUX	Starbucks Corp	70%
TJX	TJX Companies Inc	69%
ROST	Ross Stores	65%
URBN	Urban Outfitters Inc	63%
KSS	Kohls Corp	61%
YUM	YUM! Brands	54%
BBBY	Bed Bath & Beyond, Inc	52%

Sources: New Constructs, LLC.

We reverse ALL accounting distortions to provide *accurate* and *comparable* economic earnings for 3,000+ companies.

See our chapter in the [Valuation Handbook](#) (Wiley Finance, 2009) for more information.

## Misleading Earnings

Operating leases distort balance sheets and reported earnings by enabling companies to move debt (and the corresponding assets) off the balance sheet and into the Financial Footnotes.<sup>1</sup> To understand the true [economic earnings](#) of a business, accounting distortions like operating leases must be reversed. New Constructs specializes in scouring the Financial Footnotes and Management Discussion & Analysis to find and correct accounting distortions. Our research delivers the whole truth about [profitability and valuation](#)<sup>2</sup>.

FASB seems to agree that operating lease accounting rules impair investors' ability to properly value companies. FASB issued a proposed new standard that bans the use of operating lease accounting and requires all leases be capitalized on the balance sheet.<sup>3</sup> The proposed standards, if accepted, are scheduled to be implemented in 2012. Even after the new standard is implemented, investors will need to convert operating leases into capital leases for all prior years to perform apples-to-apples historical comparisons.

New Constructs has converted operating leases to capital leases for the entire digital reporting history for the 3000+ companies we cover.

## Accounting for Operating Leases

There are two general ways to account for leases: operating leases (off-balance sheet) and capital leases (on balance sheet). Operating and capital leases are subject to different accounting disclosure rules, which companies consider when entering into lease contracts. Capital leases are carried on the balance sheet; their assets are included in PP&E and their liabilities are included in debt. Finance charges for capital leases are included in interest expense on the income statement. Operating leases are not carried on the balance sheet and their finance charge is reported as an operating expense on the income statement. In the last fiscal year, 97% of our 3000+ coverage universe used operating leases over capital leases, which hid over \$765 billion in debt and income-producing assets from investors.

New Constructs converts operating leases to capital leases by gathering data from the future minimum payment schedules in the Financial Footnotes. We discount the future minimum payments to their present value using the company's cost of debt. The balance sheet is adjusted to include the present value of the capitalized operating leases as part of our [Invested Capital](#) calculation; Net Operating Profit After Tax ([NOPAT](#)) is adjusted for the finance charge, which is calculated by multiplying the cost of debt by the present value of the capitalized operating leases.

<sup>1</sup>Aswath Damodaran, [Dealing with Operating Leases in Valuation](#)

<sup>2</sup>[The Valuation Handbook](#): Chapter 8 - Modern Tools for Valuation

<sup>3</sup>[FASB Exposure Draft](#), Proposed Accounting Standards Update: Leases (Topic 840) Issued August 17, 2010

### S&P 500: Misleading Earnings

The S&P 500 has 66 companies with operating leases greater than 10% of reported total assets. These 66 companies are carrying more than 10% of their income-producing assets off-balance sheet. Figure 2 shows the 10 companies with the highest percent of operating leases compared to reported total assets. The balance sheets of each of the companies listed below are distorted due to off-balance sheet operating leases.

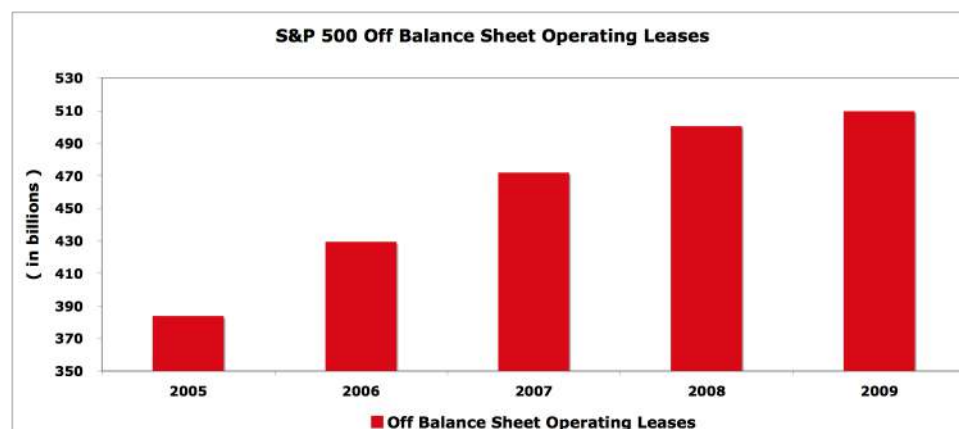
**Figure 2: The Most Distorted Balance Sheets in the S&P 500 (\$mm)**

Ticker	Company Name	Fiscal Year	Operating Leases as % of Total Assets	Operating Leases	Total Assets
WFMI	Whole Food Market	2009	97%	\$ 3,660	\$ 3,783
WAG	Walgreen Co.	2009	94%	\$ 23,623	\$ 25,142
ANF	Abercrombie & Fitch Co Cl A	2010	81%	\$ 2,272	\$ 2,822
SBUX	Starbucks Corp	2009	70%	\$ 3,894	\$ 5,577
TJX	TJX Companies Inc	2010	69%	\$ 5,178	\$ 7,464
ROST	Ross Stores	2010	65%	\$ 1,802	\$ 2,769
URBN	Urban Outfitters Inc	2010	63%	\$ 1,028	\$ 1,636
KSS	Kohls Corp	2010	61%	\$ 8,091	\$ 13,160
YUM	YUM! Brands	2009	54%	\$ 3,845	\$ 7,148
BBBY	Bed Bath & Beyond, Inc	2010	52%	\$ 2,682	\$ 5,152

Sources: New Constructs, LLC.

S&P 500 companies are hiding over \$509 billion in operating leases in the Financial Footnotes. Investors not accounting for operating leases are giving the S&P 500 companies \$509 billion of free capital and ignoring \$509 billion of debt. Figure 3 below presents the total amount of off-balance sheet operating leases S&P 500 companies have hidden over the last 5 fiscal years.

**Figure 3: Total S&P 500 Operating Leases**

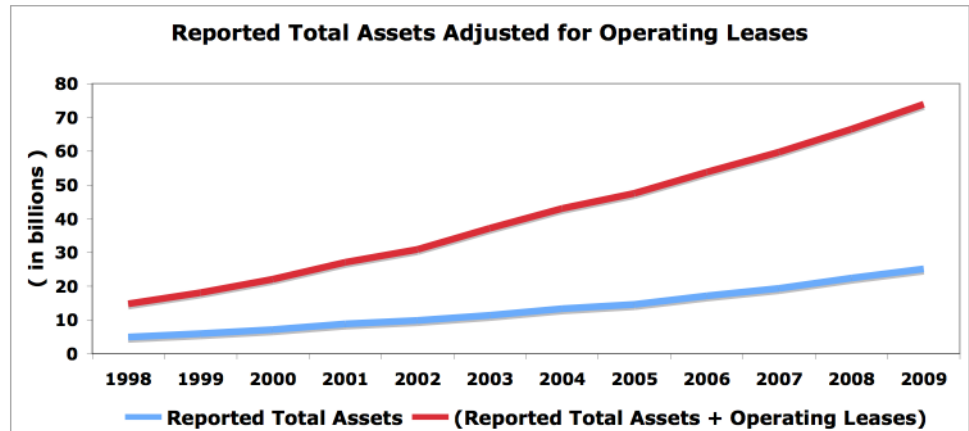


Sources: New Constructs, LLC.

**Case Study: Walgreen Company (WAG)**

Walgreens hides more than \$23.6 billion of debt in operating leases, a stunning 94% of reported total assets, from investors. WAG’s balance sheet will almost double when operating leases are capitalized on the balance sheet per FASB’s proposed standards. Figure 4 compares WAG’s reported total assets to assets adjusted for operating leases.

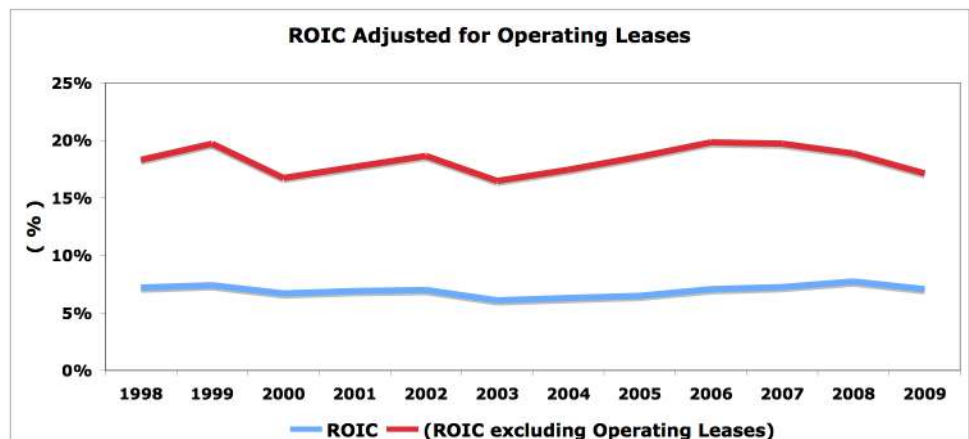
**Figure 4: WAG – Reported Total Assets Adjusted for Operating Leases**



Sources: New Constructs, LLC

Investors not accounting for operating leases are giving WAG more than \$23.6 billion in free capital and ignoring \$23.6 billion of debt. A proper [Return on Invested Capital \(ROIC\)](#) must include all income-producing assets. Figure 5 compares WAG’s ROIC to ROIC excluding operating leases.

**Figure 5: WAG – ROIC Adjusted for Operating Leases**



Sources: New Constructs, LLC.

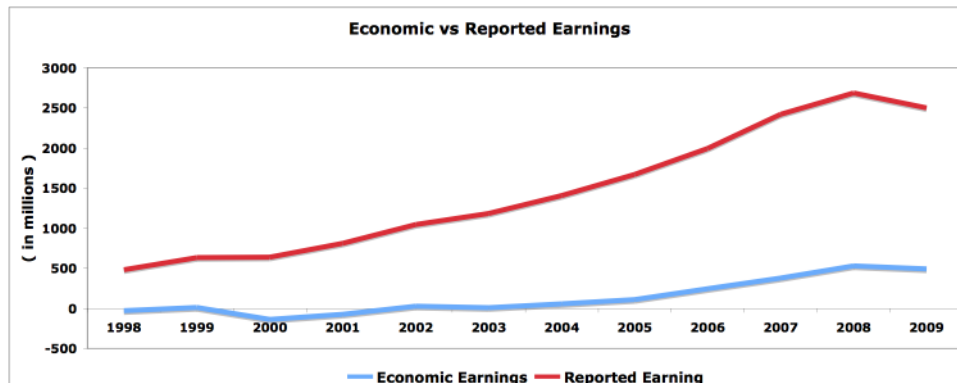
“[Accounting] Earnings, earnings per share and earnings growth are misleading measures of corporate performance.” (from page 66 in [Quest for Value](#) by Bennett Stewart, Harper Collins 1991.)

We provided the Senate Banking Committee a list of companies that commit [Corporate Disclosure Transgressions](#) (report available in our [Free Archive](#).)

We uncover the true economic earnings of companies by incorporating critical data found only in the Financial Footnotes that other firms miss. Operating leases are only one piece of the puzzle. We make over 15 major adjustments to convert reported earnings to economic earnings.

Figure 6 compares WAG’s economic earnings, which accounts for all major adjustments, to reported earnings. Note that WAG’s 2009 economic earnings are only 25% of reported earnings.

**Figure 6: WAG – Economic Earnings vs. Reported Earnings**



Sources: New Constructs, LLC.

For a complete picture of an individual company’s economic earnings, purchase a [Company Valuation Report](#) for any of the 3000+ companies we cover. Click [here](#) for a free report on WAG.

Appendices in the free Company Valuation Report show exactly how the adjustment for capitalizing operating leases affects our NOPAT, Invested Capital, WACC and Economic Earnings calculations. Our Company Valuation Reports always show every adjustment and exactly how we calculate every variable used in our Risk/Reward Ratings.

### **More Red Flag Reports**

Be on the lookout for more Red Flag reports from New Constructs. Future reports will focus on the following accounting distortions:

- **Asset Write-offs**
- **Pensions**
- **Reserves**
- **Non-operating Expenses Hidden in Operating Expenses**
- **Employee Stock Options**
- **Discontinued Operations**

See our [Corporate Disclosure Transgressions](#) report for a more complete list of Red Flags.

**Appendix A: 100 Most Misleading Earnings due to Operating Leases (\$mm)**

Ticker	Company Name	Fiscal Year	Operating Leases as % of Total Assets	ROIC	Operating Leases	Total Assets
1 FVE	Fivestar Quality Care Inc	2009	366.7%	6.1%	\$ 1,515.0	\$ 413.1
2 AVCA	Advocat Inc	2009	247.0%	4.4%	\$ 260.0	\$ 105.3
3 MRNA	Marina Biotech	2009	193.2%	-31.7%	\$ 14.0	\$ 7.2
4 COSI	COSI INC	2009	166.1%	-3.9%	\$ 52.4	\$ 31.6
5 CMG	Chipotle Mexican Grill Inc	2009	144.2%	7.4%	\$ 1,386.5	\$ 961.5
6 TLB	Talbots Inc	2010	122.1%	2.9%	\$ 1,008.3	\$ 825.8
7 NWY	NEW YORK & CO INC	2010	118.9%	0.6%	\$ 519.1	\$ 436.5
8 DKS	Dick's Sporting Good Inc	2010	116.8%	5.0%	\$ 2,622.1	\$ 2,245.3
9 EXBD	Corporate Exec. Board Co	2009	116.7%	10.6%	\$ 494.1	\$ 423.2
10 WGAT	Worldgate Comms	2009	116.0%	-58.1%	\$ 2.8	\$ 2.4
11 JMBA	Jamba	2009	113.6%	1.7%	\$ 142.9	\$ 125.8
12 APP	American Apparel	2009	113.3%	4.4%	\$ 371.2	\$ 327.6
13 KIRK	KIRKLAND'S INC	2010	113.2%	15.4%	\$ 187.4	\$ 165.5
14 CMRG	Casual Male Rtal	2010	111.2%	4.0%	\$ 201.4	\$ 181.0
15 BGP	Borders Group	2010	108.0%	2.1%	\$ 1,539.2	\$ 1,425.2
16 SCSS	Select Comfort Corp	2009	103.4%	11.2%	\$ 122.3	\$ 118.2
17 PACR	PACER INTL INC	2009	103.1%	0.5%	\$ 284.3	\$ 275.9
18 ULTA	Ulta Salon Cosm. & Frag. Inc	2010	101.4%	5.0%	\$ 561.5	\$ 553.6
19 RGC	REGAL ENTERTAINMENT GRP	2009	101.1%	6.2%	\$ 2,666.6	\$ 2,637.7
20 ZUMZ	ZUMIEZ INC	2010	100.5%	4.3%	\$ 261.5	\$ 260.3
21 ANN	Ann Taylor Inc	2010	100.1%	2.5%	\$ 902.8	\$ 902.1
22 NBIX	Neurocrine Biosciences Inc	2009	98.8%	-18.5%	\$ 70.0	\$ 70.8
23 MRT	Morton's Restaurant Group Inc.	2009	98.0%	3.2%	\$ 195.0	\$ 198.9
24 WFMI	Whole Food Market	2009	96.7%	4.0%	\$ 3,660.0	\$ 3,783.4
25 DEST	Destination Maternity Corp	2009	96.5%	5.5%	\$ 189.1	\$ 196.0
26 UTI	Universal Tech. Institute Inc	2009	95.7%	5.5%	\$ 213.7	\$ 223.4
27 TSCO	Tractor Supply Co	2009	95.1%	7.6%	\$ 1,170.6	\$ 1,230.8
28 PNRA	Panera Bread Co CI A	2009	94.9%	7.6%	\$ 794.3	\$ 837.2
29 GCO	Genesco Inc	2010	94.3%	4.2%	\$ 814.7	\$ 863.7
30 WAG	Walgreen Co	2009	94.0%	7.1%	\$ 23,623.2	\$25,142.0
31 CACH	Cache Inc	2009	93.8%	-1.3%	\$ 104.1	\$ 111.0
32 JACK	Jack In The Box Inc	2009	93.7%	7.9%	\$ 1,364.5	\$ 1,455.9
33 PIR	Pier 1 Imports	2010	91.6%	6.7%	\$ 588.8	\$ 643.0
34 BJ	BJ Wholesale Club Inc	2010	89.9%	6.1%	\$ 1,946.4	\$ 2,166.1
35 ARDNA	Arden Group Inc Class A	2009	89.7%	13.1%	\$ 103.2	\$ 115.1
36 INTZ	Intrusion Inc	2009	87.7%	2.1%	\$ 1.0	\$ 1.1
37 WTSLA	Wet Seal Inc Class A	2010	87.2%	9.4%	\$ 309.0	\$ 354.2
38 SYMS	Syms Corp	2010	86.8%	-2.9%	\$ 233.5	\$ 269.1
39 DSW	DSW INC	2010	86.1%	6.6%	\$ 732.4	\$ 850.8
40 MSSR	McCormick & Schmiks Seafood	2009	84.9%	4.2%	\$ 162.2	\$ 191.1
41 ARO	AEROPOSTALE INC	2010	83.5%	24.3%	\$ 661.8	\$ 792.3
42 CEC	CEC Entertainment	2009	83.4%	7.1%	\$ 621.1	\$ 744.3
43 CWTR	Coldwater Creek Inc	2010	81.4%	-1.3%	\$ 474.8	\$ 583.5
44 ANF	Abercrombie & Fitch Co CI A	2010	80.5%	3.3%	\$ 2,271.8	\$ 2,821.9
45 PSUN	Pacific Sunwear Of California	2010	80.3%	-2.5%	\$ 383.4	\$ 477.2
46 BBW	Build-A-Bear Workshop	2009	79.7%	0.9%	\$ 226.5	\$ 284.3
47 HGG	HHGregg Inc	2010	79.0%	6.8%	\$ 478.7	\$ 605.9
48 AAI	Airtran Holdings Inc	2009	77.5%	7.4%	\$ 1,769.2	\$ 2,284.2
49 BWLD	BUFFALO WILD WINGS INC	2009	77.3%	7.7%	\$ 238.9	\$ 309.1
50 RVI	Retail Ventures	2010	75.8%	8.0%	\$ 685.0	\$ 903.5

Companies are ranked by Operating Leases as % of Total Assets descending

	Ticker	Company Name	Fiscal Year	Operating Leases as % of Total Assets	ROIC	Operating Leases	Total Assets
51	AIRM	Air Methods Corp	2009	74.7%	5.9%	\$ 317.0	\$ 424.1
52	GYMB	Gymboree Corp	2010	74.4%	13.5%	\$ 473.1	\$ 636.1
53	FL	Foot Locker Inc	2010	74.0%	3.0%	\$ 2,085.0	\$ 2,816.0
54	SMRT	Stein Mart Inc	2010	73.9%	8.1%	\$ 298.8	\$ 404.2
55	CBK	Christopher & Banks Corp	2010	73.8%	1.8%	\$ 197.2	\$ 267.3
56	CPWM	Cost Plus Inc	2010	73.5%	-1.9%	\$ 279.7	\$ 380.4
57	ARDM	Aradigm Corp	2009	73.0%	-43.4%	\$ 8.7	\$ 12.0
58	PETM	Petsmart Inc	2010	72.8%	7.4%	\$ 1,792.7	\$ 2,462.0
59	RUTH	Ruth's Hospitality	2009	72.8%	5.6%	\$ 185.1	\$ 254.4
60	BGFV	Big 5 Sporting Goods Cp	2009	72.4%	6.3%	\$ 264.9	\$ 366.1
61	AEO	American Eagle Outfitters Inc	2010	71.7%	7.7%	\$ 1,532.5	\$ 2,138.1
62	PLCE	Children's Place Ret. Stores Inc	2010	71.5%	8.3%	\$ 610.9	\$ 854.1
63	RIGL	Rigel Pharmaceuticals Inc	2009	71.1%	-46.7%	\$ 100.0	\$ 140.7
64	JAS	Jo-Ann Stores Inc	2010	70.2%	6.8%	\$ 702.7	\$ 1,000.4
65	DAVE	Famous Daves of America	2009	69.9%	8.1%	\$ 47.8	\$ 68.4
66	SBUX	Starbucks Corp	2009	69.8%	9.4%	\$ 3,893.8	\$ 5,576.8
67	TJX	TJX Companies Inc	2010	69.4%	14.3%	\$ 5,178.4	\$ 7,464.0
68	RAD	Rite Aid Corp	2010	68.4%	5.9%	\$ 5,502.2	\$ 8,049.9
69	HA	Hawaiian Holding	2009	68.2%	9.0%	\$ 701.4	\$ 1,028.9
70	ASUR	Asure Software	2009	68.1%	-8.3%	\$ 10.7	\$ 15.7
71	KND	KINDRED HEALTH CARE INC	2009	67.7%	3.8%	\$ 1,368.8	\$ 2,022.2
72	JCG	J CREW GROUP INC	2010	67.6%	17.2%	\$ 499.4	\$ 738.6
73	ACMR	AC Moore Arts & Crafts Inc	2009	67.3%	-2.0%	\$ 178.6	\$ 265.5
74	BLOKA	Blockbuster Inc	2009	67.3%	2.1%	\$ 1,034.9	\$ 1,538.3
75	HHGP	HUDSON HIGHLAND GRP INC	2009	66.9%	-5.7%	\$ 121.7	\$ 181.9
76	DENN	Denny's Corp	2009	66.2%	7.4%	\$ 207.0	\$ 312.6
77	HOTT	Hot Topic Inc	2010	65.2%	4.2%	\$ 245.4	\$ 376.4
78	ROST	Ross Stores	2010	65.1%	16.1%	\$ 1,802.0	\$ 2,768.6
79	WSM	Williams Sonoma Inc	2010	64.6%	5.8%	\$ 1,344.0	\$ 2,079.2
80	AAWW	Atlas Air Worldwide Holdings	2009	64.5%	7.1%	\$ 1,123.1	\$ 1,740.9
81	SCVL	Shoe Carnival Inc	2010	64.5%	4.8%	\$ 201.0	\$ 311.6
82	BEBE	Bebe Stores Inc	2010	64.0%	2.8%	\$ 353.5	\$ 551.9
83	URBN	Urban Outfitters Inc	2010	62.8%	12.9%	\$ 1,028.2	\$ 1,636.1
84	INAP	Internap Network Svcs Cp	2009	62.7%	-0.1%	\$ 167.8	\$ 267.5
85	LCC	US AIRWAYS GROUP INC	2009	62.4%	6.7%	\$ 4,649.7	\$ 7,454.0
86	BJRI	BJ Restaurants	2009	61.7%	3.7%	\$ 235.1	\$ 381.1
87	DLTR	Dollar Tree Inc	2010	61.5%	10.4%	\$ 1,408.0	\$ 2,289.7
88	KSS	Kohls Corp	2010	61.5%	7.0%	\$ 8,090.8	\$13,160.0
89	CAKE	Cheesecake Factory Inc	2009	61.1%	6.7%	\$ 639.4	\$ 1,046.8
90	LULU	lululemon athletica Inc	2010	60.7%	21.4%	\$ 186.6	\$ 307.3
91	CGI	Celadon Group Inc	2010	59.7%	2.5%	\$ 165.4	\$ 277.1
92	TRLG	True Religion Apparel Inc	2009	58.7%	20.7%	\$ 134.8	\$ 229.8
93	LIZ	Liz Claiborne	2009	58.3%	-1.7%	\$ 936.6	\$ 1,605.9
94	WINN	WINN-DIXIE STORES	2010	57.5%	3.2%	\$ 1,056.2	\$ 1,838.1
95	BAMM	Books A Million	2010	57.3%	7.1%	\$ 156.8	\$ 273.5
96	AAP	ADVANCE AUTO PARTS INC	2009	57.2%	4.6%	\$ 1,758.4	\$ 3,073.0
97	SKX	Skechers USA Inc	2009	57.2%	6.0%	\$ 569.4	\$ 995.6
98	CKEC	CHARMIKE CINEMAS	2009	56.3%	7.2%	\$ 255.5	\$ 454.0
99	BKE	Buckle Inc	2010	56.2%	25.8%	\$ 274.6	\$ 488.9
100	CPKI	California Pizza Kitchen Inc	2009	55.7%	5.9%	\$ 194.9	\$ 350.3

Companies are ranked by Operating Leases as % of Total Assets descending

## Appendix B: Additional Metrics (\$mm)

Ticker	Company Name	Fiscal Year	Operatling Leases as % of Market Value	Operatling Lease as % of On Balance Sheet Debt	Operatling Lease as % of Revenue
1 FVE	Fivestar Quality Care Inc	2009	1224.0%	1495.7%	127%
2 AVCA	Advocat Inc	2009	590.5%	838.0%	86%
3 MRNA	Marina Biotech	2009	55.2%	4405.3%	95%
4 COSI	COSI INC	2009	243.5%	No Debt	44%
5 CMG	Chipotle Mexican Grill Inc	2009	50.0%	35752.4%	91%
6 TLB	Talbots Inc	2010	162.8%	207.3%	82%
7 NWY	NEW YORK & CO INC	2010	246.9%	3845.1%	52%
8 DKS	Dick's Sporting Good Inc	2010	102.1%	1843.4%	59%
9 EXBD	Corporate Executive Board Co	2009	63.4%	No Debt	112%
10 WGAT	Worldgate Comms	2009	1.1%	195.8%	157%
11 JMBA	Jamba	2009	159.5%	456.3%	47%
12 APP	American Apparel	2009	168.6%	445.3%	66%
13 KIRK	KIRKLAND'S INC	2010	61.4%	No Debt	46%
14 CMRG	Casual Male Rtal	2010	152.5%	1822.3%	51%
15 BGP	Borders Group	2010	2989.4%	545.8%	55%
16 SCSS	Select Comfort Corp	2009	34.5%	46673.5%	22%
17 PACR	PACER INTL INC	2009	257.8%	1022.7%	18%
18 ULTA	Ulta Salon Cosm. & Frag. Inc	2010	49.8%	No Debt	46%
19 RGC	REGAL ENTERTAINMENT GRP	2009	119.9%	133.5%	92%
20 ZUMZ	ZUMIEZ INC	2010	67.9%	No Debt	64%
21 ANN	Ann Taylor Inc	2010	122.3%	No Debt	49%
22 NBIX	Neurocrine Biosciences Inc	2009	58.5%	No Debt	2370%
23 MRT	Morton's Restaurant Group Inc.	2009	421.6%	288.7%	69%
24 WFMI	Whole Food Market	2009	90.5%	317.6%	46%
25 DEST	Destination Maternity Corp	2009	174.0%	329.3%	36%
26 UTI	Universal Tech. Institute Inc	2009	44.7%	No Debt	58%
27 TSCO	Tractor Supply Co	2009	60.1%	65069.2%	37%
28 PNRA	Panera Bread Co Cl A	2009	36.6%	No Debt	59%
29 GCO	Genesco Inc	2010	143.5%	No Debt	52%
30 WAG	Walgreen Co	2009	70.4%	1004.8%	37%
31 CACH	Cache Inc	2009	178.6%	3673.3%	47%
32 JACK	Jack In The Box Inc	2009	119.7%	320.9%	55%
33 PIR	Pier 1 Imports	2010	83.4%	1661.7%	46%
34 BJ	BJ Wholesale Club Inc	2010	107.1%	169549.0%	19%
35 ARDNA	Arden Group Inc Class A	2009	34.2%	8406.5%	24%
36 INTZ	Intrusion Inc	2009	21.2%	102.1%	20%
37 WTSLA	Wet Seal Inc Class A	2010	94.1%	5998.3%	55%
38 SYMS	Syms Corp	2010	160.7%	2778.7%	62%
39 DSW	DSW INC	2010	69.2%	No Debt	46%
40 MSSR	McCormick & Schmiks Seafood	2009	147.2%	1011.2%	45%
41 ARO	AEROPOSTALE INC	2010	21.4%	No Debt	30%
42 CEC	CEC Entertainment	2009	87.7%	169.8%	76%
43 CWTR	Coldwater Creek Inc	2010	115.5%	4145.5%	46%
44 ANF	Abercrombie & Fitch Co Cl A	2010	53.5%	3190.1%	78%
45 PSUN	Pacific Sunwear Of California	2010	165.7%	No Debt	37%
46 BBW	Build-A-Bear Workshop	2009	226.6%	No Debt	57%
47 HGG	HHGregg Inc	2010	49.2%	541.9%	31%
48 AAI	Airtran Holdings Inc	2009	251.6%	145.7%	76%
49 BWLD	BUFFALO WILD WINGS INC	2009	30.8%	No Debt	44%
50 RVI	Retail Ventures	2010	169.0%	527.9%	43%

Companies that do not carry debt on balance sheet are marked with "No Debt" in the Operating Leases as % of On Balance Sheet Debt



Ticker	Company Name	Fiscal Year	Operatling Leases as % of Market Value	Operatling Lease as % of On Balance Sheet Debt	Operatling Lease as % of Revenue
51	AIRM	2009	75.7%	284.7%	62.1%
52	GYMB	2010	41.3%	No Debt	46.6%
53	FL	2010	118.0%	1510.9%	43.0%
54	SMRT	2010	88.2%	No Debt	24.5%
55	CBK	2010	79.1%	No Debt	43.3%
56	CPWM	2010	1055.5%	165.5%	32.2%
57	ARDM	2009	61.0%	98.2%	179.0%
58	PETM	2010	43.4%	313.7%	33.6%
59	RUTH	2009	343.5%	147.5%	53.7%
60	BGFV	2009	71.5%	447.9%	29.6%
61	AEO	2010	46.6%	5108.5%	51.2%
62	PLCE	2010	69.9%	No Debt	37.2%
63	RIGL	2009	20.2%	5145.5%	13337.1%
64	JAS	2010	76.5%	1479.3%	35.3%
65	DAVE	2009	85.9%	263.3%	35.1%
66	SBUX	2009	26.6%	708.6%	39.8%
67	TJX	2010	33.3%	653.4%	25.5%
68	RAD	2010	407.8%	86.4%	21.4%
69	HA	2009	194.6%	277.5%	59.3%
70	ASUR	2009	214.7%	No Debt	106.4%
71	KND	2009	189.6%	926.6%	32.1%
72	JCG	2010	20.0%	1014.4%	31.6%
73	ACMR	2009	244.5%	940.1%	38.1%
74	BLOKA	2009	794.6%	107.4%	25.5%
75	HHGP	2009	95.9%	1164.2%	17.6%
76	DENN	2009	97.0%	74.3%	34.0%
77	HOTT	2010	96.3%	No Debt	33.3%
78	ROST	2010	32.3%	1201.3%	25.1%
79	WSM	2010	66.2%	13100.8%	43.3%
80	AAWW	2009	117.3%	198.6%	105.8%
81	SCVL	2010	84.4%	No Debt	29.5%
82	BEBE	2010	64.8%	No Debt	69.4%
83	URBN	2010	19.3%	No Debt	53.1%
84	INAP	2009	70.3%	721.9%	65.5%
85	LCC	2009	596.3%	102.7%	44.5%
86	BJRI	2009	46.8%	4701.9%	55.1%
87	DLTR	2010	32.5%	526.3%	26.9%
88	KSS	2010	52.3%	391.2%	47.1%
89	CAKE	2009	47.4%	421.2%	39.9%
90	LULU	2010	12.9%	No Debt	41.2%
91	CGI	2010	52.5%	464.7%	31.6%
92	TRLG	2009	28.9%	No Debt	43.3%
93	LIZ	2009	175.2%	132.9%	31.1%
94	WINN	2010	198.9%	3583.9%	14.6%
95	BAMM	2010	157.3%	2466.0%	30.8%
96	AAP	2009	46.4%	744.0%	32.5%
97	SKX	2009	41.6%	3133.0%	39.6%
98	CKEC	2009	262.8%	69.2%	49.6%
99	BKE	2010	19.5%	No Debt	30.6%
100	CPKI	2009	59.9%	874.2%	29.3%

Companies that do not carry debt on balance sheet are marked with "No Debt" in the Operating Leases as % of On Balance Sheet Debt

## New Constructs® – Profile

---

New Constructs® is a specialty equity research firm. Our main activity is delivering to clients an integrated research platform that maximizes the analytical value of financial data. Our primary goal is to empower clients to achieve better investment performance.

Our main products are MaxVal™, MaxStrategy™ and MaxData™. These research tools are delivered via [www.newconstructs.com](http://www.newconstructs.com). MaxVal is a DCF-based, equity valuation model that allows clients to define their own forecasts and forecast drivers. MaxStrategy is a stock screening/ranking tool that enables clients to analyze stocks on many metrics, several unique to our platform. Both MaxVal & MaxStrategy are integrated with MaxData, our proprietary financial database. Unlike many other research firms, we do not buy our raw material - corporate financial data - from commercial vendors. Rather, we source it ourselves to create MaxData.

The key advantage provided by MaxData is that it delivers data drawn directly from SEC filings, including the *Notes to the Financial Statements*. We can cost-effectively deliver any reported data point. We believe our capabilities in this area are unmatched. For example, our MaxVal models provide both a high-integrity economic analysis as well as a traditional GAAP accounting analysis.

Our clients are professional investors, research firms, consulting firms and publicly listed corporations. We also partner with colleges and business schools. Our products may also be of interest to active individual investors.

For more information, visit our website: [www.newconstructs.com](http://www.newconstructs.com).

## DISCLOSURES

---

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

New Constructs is affiliated with Novo Capital Management, LLC, the general partner of a hedge fund. At any particular time, New Constructs' research recommendations may not coincide with the hedge fund's holdings. However, in no event will the hedge fund receive any research information or recommendations in advance of the information that New Constructs provides to its other clients.

## DISCLAIMERS

---

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010. All rights reserved.