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Airlines, retailers seen with lease accounting woes

Published on Fri, Jul 21, 2006 at 10:28 | Updated at Fri, Jul 21, 2006 at 19:44 | Source : Moneycontrol.com

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Retailers and airlines may be among those most at risk from accounting rule makers' plans to overhaul lease accounting standards, a report from research firm New Constructs LLC showed on Thursday, reports Reuters.

The report, which capitalized companies' operating leases in a way many analysts expect the Financial Accounting Standards Board may require, judged Continental Airlines, airline operator SkyWest Inc., American Airlines parent AMR Corp., bookstore chain Borders Group Inc. and drugstore chain Rite Aid Corp. to be most at risk from changes to the accounting rules.Retailers lease many of their stores and airlines lease many of their planes.

The FASB, which sets US accounting rules, voted unanimously on Wednesday to begin a project to reconsider accounting for leases.The vote was one of the first major steps in a project that could potentially require companies to recognize leases on corporate balance sheets instead of in financial statement footnotes.

New Constructs' report said the companies it cited would suffer huge increases in their debt-to-equity ratios, which is often seen as an indication of a company's financial leverage.

Investors tend to regard companies with high debt-to-equity ratios as riskier investments with more volatile earnings, particularly if interest rates are rising and could increase a company's obligation to pay off more of its debt.

Continental Airlines could see its debt-to-equity ratio increase by 461% if it were required to capitalize all its leases, while Borders could see an increase of 217%, New Constructs said.

Rite Aid, SkyWest and AMR could see their debt-to-equity ratios more than double, the report showed.Investors now may not be as aware of companies' lease obligations, said David Trainer, President of New Constructs."It's pretty complicated finance for most investors, and it is way too time consuming for most people's decision-making time horizon," Trainer said.

The report also found nearly 650 companies have off balance sheet debt equal to 5% or more of their market capitalization, according to the report.

Hundreds of companies, particularly restaurants and retailers, were forced to restate financial results last year due to improper lease accounting.FASB expects to have a discussion paper on a new lease accounting standard by 2008 and a final standard some time in 2009.

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