

Leases

Topics to be Discussed

Leases

Accounting for lessees

Capital leases

Operating leases

Leases

Definition

A lease is a contractual arrangement by which the holder of the property (the lessor) permits its use by another party (the lessee) for a contracted period of time

Advantages of leasing (lessee)

1. leasing frequently permits 100% financing (i.e., no down payment required) versus 60% to 80% under purchasing, thus conserving cash and working capital
2. leasing permits rapid changes in equipment, thus shifting the risk of obsolescence, inadequacy and decline in residual value to the lessor
3. for tax purposes, the lessee is allowed to write off the full cost of the asset (including land and residual values), and the deductions often may be taken over the lease period, which may not be as long as the economic life of the asset
4. a lease contract is frequently more flexible and may contain fewer restrictive provisions than alternative debt agreements
5. leasing in a certain manner may lead to junior claims, may not add debt on a balance sheet, and does not affect financial ratios; hence it may add to borrowing capacity

Growth in use of leasing contracts

Year	Percent of Companies Indicating Long-Term Leases
1951	33
1960	37
1965	48
1970	60
1975	82
1980	92
1985	92
1990	88
1995	91
2000	93
2005	97

Accounting for Leases

Capital Lease (capitalization method)

the lessee shall record a capital lease as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor

Leased Equipment [PV of future payments]	100,000	
Obligation Under Capital Leases		100,000
Property Tax Expense	2,000	
Obligations Under Capital Leases	23,982	
Interest Expense	7,602	
Cash		33,584
Depreciation Expense - Capital Lease	20,000	
Accumulated Depreciation - Capital Lease		20,000

Operating Lease (noncapitalization method)

rental on an operating lease shall be charged to expense over the lease term

Rent Expense	33,584	
Cash		33,584

Conceptual Views of Lease Accounting

1. do not capitalize any leased asset
 - lessee does not have ownership of the property
 - lease is an executory contract requiring continuing performance by both parties
2. capitalize those leases similar to installment purchase
 - substance over form - a lease has characteristics similar to installment purchases
3. capitalize all long-term leases
 - capitalize long-term right to use property

Objective of SFAS 13

a lease that transfers substantially all of the benefits and risks incident to the ownership of property should be accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee

Requirements of SFAS 13

If, at date of lease agreement, lessee meets one or more of the following criteria, arrangement is a capital lease:

1. the lease transfers ownership of the property to the lessee
2. the lease contains a bargain purchase option
 - bargain purchase option* - a provision allowing the lessee, at his/her option, to purchase the leased property for a price which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that exercise of the option appears, at the inception of the lease, to be reasonably assured
3. the lease term (including any bargain renewal options) is equal to 75% or more of the estimated economic life of the leased property
 - bargain renewal option* - a provision allowing the lessee, at his option, to renew the lease for a rental sufficiently lower than the fair rental of the property at the date the option becomes exercisable that exercise of the option appears, at the inception of the lease, to be reasonably assured
4. the present value of the minimum lease payments (excluding executory costs) equals or exceeds 90% of the fair value of the leased property
 - executory costs* - obligations for taxes, insurance, and maintenance related to the leased property

Summary of SFAS 13

Lease agreement is a capital lease if one or more of the following criteria are met:

1. the lease transfers ownership of the property to the lessee
2. the lease contains a bargain purchase option
3. the lease term (including any bargain renewal options) is equal to 75% or more of the estimated economic life of the leased property
4. the present value of the minimum lease payments (excluding executory costs) equals or exceeds 90% of the fair value of the leased property

Principal Disclosure Requirements

The FASB requires that the following information with respect to leases be disclosed in the lessee's financial statements or in the footnotes:

for operating leases

- future minimum rental payments in the aggregate and for each of the five succeeding fiscal years
- rental expense for each period for which an income statement is presented

for capital leases

- the gross amount of assets recorded under capital leases, in the aggregate and by major classes according to nature or function
- the amount of accumulated amortization in total
- future minimum rental payments in the aggregate and for each of the five succeeding fiscal years

for all leases

- a general description of the lessee's leasing arrangements including:
 - the existence and terms of renewal or purchase options and escalation clauses
 - restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing

Financial Statement Disclosure of Leases

	Number of Companies			
	2006	2005	2004	2003
Noncapitalized leases only	315	317	316	327
Capitalized and				
noncapitalized leases	271	261	258	242
Capitalized leases only	5	5	9	6
No leases disclosed	9	17	17	25
Total Companies	600	600	600	600

JOY GLOBAL INC.

OCTOBER 31, 2008 10-K

Joy Global Inc. (“we” and “us”) is a leading manufacturer and servicer of high productivity mining equipment for the extraction of coal and other minerals and ores. Our equipment is used in major mining regions throughout the world to mine coal, copper, iron ore, oil sands, and other minerals.

Disclosures about Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and commercial commitments as of October 31, 2008:

<u>In thousands</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>More than 5 years</u>
Long-Term Debt	\$ 972,594	\$ 38,063	\$ 84,875	\$ 163,625	\$ 686,031
Capt. Lease Oblig.	2,357	1,039	1,072	246	-
Purchase Obligations	27,679	12,155	15,438	86	-
Operating Leases	<u>53,818</u>	<u>16,480</u>	<u>19,599</u>	<u>8,301</u>	<u>9,438</u>
Total	<u>\$ 1,056,448</u>	<u>\$ 67,737</u>	<u>\$ 120,984</u>	<u>\$ 172,258</u>	<u>\$ 695,469</u>

13. Operating Leases

We lease certain plant, office and warehouse space as well as machinery, vehicles, data processing and other equipment. Certain of the leases have renewal options at reduced rates and provisions requiring us to pay maintenance, property taxes and insurance. Amortization of assets reported as capital leases is included in depreciation expense. Generally, all rental payments are fixed. Our assets and obligations under capital lease arrangements are not significant.

Total rental expense under operating leases, excluding maintenance, taxes and insurance, was \$23.1 million, \$17.7 million, and \$16.7 million for fiscal 2008, 2007, and 2006, respectively.

At October 31, 2008, the future payments for all operating leases with remaining lease terms in excess of one year, and excluding maintenance, taxes and insurance were as follows:

In millions	
2009	16.5
2010	11.5
2011	8.1
2012	5.1
2013	3.2
Thereafter	<u>9.5</u>
Total	53.8

**Walgreen Co.
August 31, 2008 10-K Report**

Walgreen Co. operates a chain of drugstores in the United States. These drugstores sell prescription and non-prescription drugs, and general merchandise.

(2) Leases

The company owns 19.9% of its operating locations; the remaining locations are leased premises. Initial terms are typically 20 to 25 years, followed by additional terms containing cancellation options at five-year intervals, and may include rent escalation clauses. The commencement date of all lease terms is the earlier of the date the company becomes legally obligated to make rent payments or the date the company has the right to control the property. Additionally, the company recognizes rent expense on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, most leases provide for contingent rentals based upon a portion of sales.

Minimum rental commitments at August 31, 2008, under all leases having an initial or remaining non-cancelable term of more than one year are shown below (in millions):

2009	\$ 1,843
2010	1,961
2011	1,960
2012	1,929
2013	1,890
Later	<u>23,883</u>
Total minimum lease payments	\$ 33,466

The above minimum lease payments include minimum rental commitments related to capital leases of \$69 million at August 31, 2008. This capital lease amount includes \$28 million of executory costs and imputed interest. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately \$37 million on leases due in the future under non-cancelable subleases.

Walgreen Co.
August 31, 2008 10-K Report

Contractual Obligations and Commitments

The following table lists our contractual obligations and commitments at August 31, 2008 (in millions):

	Payments Due by Period				
	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>Over 5 Years</u>
Operating leases (1)	\$ 33,038	\$ 1,811	\$ 3,849	\$ 3,763	\$ 23,615
Purchase obligations (2):					
Open inventory purchase orders	1,931	1,931	-	-	-
Real estate development	952	952	-	-	-
Other corporate obligations	620	338	181	59	42
Long-term debt*	1,350	8	3	1,303	36
Interest payment on long-term debt	319	71	127	121	-
Insurance*	466	128	118	84	136
Retiree health*	371	8	21	27	315
Closed location obligations*	69	17	21	12	19
Capital lease obligations*	42	2	5	3	32
Other long-term liabilities reflected on the balance sheet* (3)	514	41	107	84	282
Total	\$ 39,672	\$ 5,307	\$ 4,432	\$ 5,456	\$ 24,477

*Recorded on balance sheet.

- (1) Amounts for operating leases and capital leases do not include certain operating expenses under these leases such as common area maintenance, insurance and real estate taxes. These expenses for the company's most recent fiscal year were \$298 million.

1991 ANNUAL REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEDERAL EXPRESS CORPORATION AND SUBSIDIARIES

NOTE 5: LEASE COMMITMENTS

The Company utilizes certain aircraft, land, facilities and equipment under capital and operating leases which expire at various dates through 2021. In addition, supplemental aircraft are leased under agreements which generally provide for cancellation upon 60 days' notice.

Property and equipment recorded under capital leases at May 31 was as follows

In thousands	1991	1990
Flight equipment	\$ -	\$ 228,608
Package handling and ground support equipment	370,963	365,901
Computer and electronic equipment	57,922	58,006
Other	<u>134,085</u>	<u>134,085</u>
	562,970	786,600
Less accumulated amortization	<u>336,669</u>	<u>331,581</u>
	226,301	455,019

Effective May 1991, modifications to the lease terms for flight equipment under capital leases resulted in their conversion to operating leases.

Rent expense under operating leases for the years ended May 31 was as follows:

In thousands	1991	1990	1989
Minimum rentals	\$ 611,023	\$ 586,834	\$ 374,193
Contingent rentals	<u>144,045</u>	<u>130,609</u>	<u>93,028</u>
	\$ 755,068	\$ 717,443	\$ 467,221

Contingent rentals are based on mileage under supplemental aircraft leases.

A summary of future minimum lease payments under capital leases and non-cancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 1991 follows:

In thousands	Capital Leases	Operating Leases
1992	\$ 36,811	\$ 411,006
1993	29,784	338,409
1994	25,013	304,702
1995	25,838	285,909
1996	25,309	271,773
Thereafter	<u>532,349</u>	<u>2,586,669</u>
	\$ 675,104	\$ 4,198,468

At May 31, 1991, the present value of future minimum lease payments for capital lease obligations was \$239,254,000.