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Off-balance-sheet financing: Holy Grail or holey pail?

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Our column in the Feb. 11, 2008, issue addressed the pitfalls of pursuing off-balance-sheet financing. In light of the August 2010 exposure draft from the Financial Accounting Standards Board and the International Accounting Standards Board that proposes capitalizing all leases, we decided to republish it in order to help readers who might be baffled by this massive paradigm shift. In the next issue, we'll reprint a follow-up column in which we responded to criticisms from an individual who basically had no problem with operating lease accounting, to the point that he didn't even consider it as a way for management to deliberately mislead financial statement users.

One dirty little secret of financial reporting is off-balance-sheet financing. Managers strive after it like the Holy Grail, wanting to take on debt while reporting none or only some of it as liabilities on their balance sheets. They hope that depriving investors and other statement users of vital information will drive their stock price higher. Adding insult to this injury, pulling off OBSF almost always means spending a lot of the shareholders' money to structure transactions, just to keep those shareholders in the

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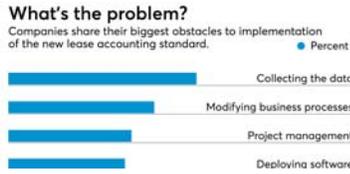
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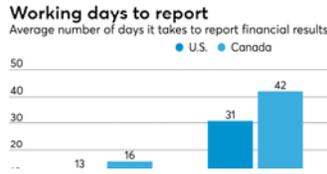
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