Negative equity is not the same as bankruptcy

Negative equity is not the same as bankruptcy is a free 50-minute high school lesson on what shareholders' equity measures. Students trace how buybacks pushed equity below zero at McDonald's, Starbucks and Lowe's, and how Home Depot's turned positive after its buybacks paused.

5-minute prep

- Print: one worksheet per student (2 pages, black and white). Print the answer key for yourself.
- Project: the slides (12 slides). The company cards start on slide 5.
- Read: "Teacher background in 2 minutes" below, then the discussion guidance.

Grade	High school, grades 9–12
Time	50 minutes (splits into two 25-minute blocks)
Edition	2026–27 first edition v1.0
Lesson page	cityfort.co/teachers/debt-cash-and-staying-power/negative-equity

Objective

Students can explain shareholders' equity as assets minus liabilities, name two ways it can fall below zero, and use a filing to say which one applies at a company.

Standards the lesson supports

- CCSS.ELA-Literacy.RH.11-12.7 (Common Core states)
- CCSS.ELA-Literacy.RH.11-12.1 (Common Core states)
- Investing 8-4 (Jump$tart / CEE National Standards), in part

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

Timing

Minutes	Step	What happens
0–7	**Warm-up**	A made-up lemonade company has $1,000 of assets and $700 of liabilities. It borrows $800 to buy back owners' shares. What happens to the owners' stake on paper? (made-up numbers)
7–15	**What equity is**	Equity = assets − liabilities. What raises it (profit kept, new shares) and what lowers it (losses, dividends, buybacks).
15–32	**Four companies**	Pairs read McDonald's, Starbucks, Lowe's and Home Depot and find, in each card, the fact that explains the sign of its equity.
32–40	**Two roads below zero**	Losses or payouts: the class sorts the cards and checks which road each filing shows.
40–46	**Discussion**	What does negative equity say, and what does it not say? Describe, don't judge.
46–50	**Exit ticket**	Exit ticket (4 questions).

Materials

- The slides (projected) or the printed worksheet.
- One worksheet per student. It prints in black and white on two pages.
- A calculator.
- No accounts, no logins and no internet access are required. The student page is optional.

Discussion questions

1. McDonald's had negative equity and still covered its FY2025 interest about 7.8 times. What does negative equity measure, and what does it not measure?
2. Lowe's equity first fell below zero in FY2021, the year it bought back $13 billion of its shares. What do its filings show it did with its buybacks in FY2025?
3. Home Depot's equity went from below zero in January 2022 to positive in August 2026. What changed, according to its filings?
4. Negative equity can also come from losses. What would you look for in a 10-K to tell which road a company took? (Describe it. Do not judge it.)

Adapting the lesson

English language learners: ELL: a picture of a bucket (equity) with a tap filling it (profit kept) and two drains (dividends, buybacks), a word bank and sentence frames.

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

IEP and 504 plans: IEP: the Part C table with the sign column filled in; students copy the reason from each card.

Advanced students: Advanced: students explain why Starbucks's long-term deferred revenue from Nestlé is a liability but not debt, using the card.

Extension: Students look up two more companies with negative equity on Cityfort, for example Domino's or Yum Brands, and copy the page's note on why equity is below zero. They describe each in one sentence. Read Cityfort's Learn entry What are stock buybacks?

Teacher background

Shareholders' equity

Equity is assets minus liabilities: what would be left for shareholders, on paper, if every debt and bill were paid. It is a bookkeeping total, not the market value of the shares.

What raises and lowers it

Profit kept in the business (retained earnings) and money from new shares raise equity. Losses, dividends and buybacks lower it.

Treasury stock

Some companies record bought-back shares as treasury stock, at what they paid, subtracted inside equity (McDonald's, Home Depot). Others retire the shares and take the cost from retained earnings (Starbucks, Lowe's). Either way, large buybacks over many years can exceed all the profit ever kept.

Two roads below zero

Equity can fall below zero through years of losses or through paying out more than the profit kept, often with borrowed money. The filing's equity section shows which.

Why it is not bankruptcy

Bankruptcy is a legal process when a company cannot pay what it owes. Negative equity is a balance-sheet total; a company can report it and keep paying its bills, as the four cards show.

Debt to equity

When equity is below zero, the debt-to-equity ratio has no meaning, so Cityfort pages leave it blank and say why.

If your class runs a stock-market simulation, these lessons can come before it: they explain what a company does and how it reports results. They do not suggest which companies to choose, and Cityfort does not run, rank or judge simulation picks.

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

Teaching notes

- Students often hear "negative" as "going broke." Keep returning to the definition: equity is a balance-sheet total, and bankruptcy is a legal process.
- Equity is not the market value of the shares. If students bring up share prices, note that the lesson uses no prices at all.

Standards supported

This lesson supports these outcomes. It does not cover all of any standard.

Common Core State Standards text: © Copyright 2010. National Governors Association Center for Best Practices and Council of Chief State School Officers. All rights reserved. Personal finance standards text: Copyright © 2021, Council for Economic Education and Jump$tart Coalition for Personal Financial Literacy. All rights reserved. Reproduced for noncommercial educational purposes.

- Common Core RH.11-12.7: balance-sheet totals and cash flow figures combined to explain one number.
- Common Core RH.11-12.1: each explanation cites its fact and filing.
- National Standards for Personal Financial Education (2021), Investing 8-4 (used as review): partial; what the owners' stake on a balance sheet records.

Teacher background in 2 minutes

- Equity = assets − liabilities. Its parts include money from shares issued, retained earnings and treasury stock (subtracted).
- A buyback lowers equity once, by its cost. Paid in cash, assets fall; paid with borrowed money, liabilities rise instead.
- McDonald's 10-K shows treasury stock above retained earnings at Dec 31, 2025. Other parts of equity, such as money from shares issued, make up the rest of the total.
- Starbucks's long-term deferred revenue is money Nestlé paid up front in fiscal 2018 for selling Starbucks products, recognized as revenue over time. It is a liability but not debt.
- Home Depot's equity rose after buybacks paused in March 2024, because its net income exceeded the dividends it paid.
- Negative equity can also come from years of losses. The four cards in this lesson show buybacks and dividends instead.

Materials

- Slides (PowerPoint, 12 slides). Every table is a real table, not a picture.
- Student worksheet with exit ticket (2 pages).

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

- Answer key.
- Calculators.

0–15 minutes: Warm-up and what equity is (slides 1–4)

- Show the lemonade company. The numbers are made up, and the slide says so.
- Borrowing $800 adds $800 of liabilities; the $800 goes straight to the sellers, so assets end where they began. Equity = $1,000 − $1,500 = −$500. The stand is still open.
- Define assets, liabilities, equity, retained earnings and treasury stock. Students copy them into Part B.

15–32 minutes: Four companies (slides 5–8)

- Pairs fill in Part C: the sign of equity at each date, and one fact from the card that explains it.
- At McDonald's, work out treasury stock minus retained earnings together.

32–40 minutes: Two roads below zero (slides 9–10)

- Show the two roads: losses, or payouts larger than the profit kept.
- Pairs sort the cards in Part D. All four show payouts; Home Depot also shows the road back up.

40–46 minutes: Discussion (slide 11)

- Use the discussion questions below.
- If students say a company is "broke" or "fine," ask: "Which number shows that, and on what date?"

46–50 minutes: Exit ticket (slide 12)

- Students answer the four exit-ticket questions on page 2 of the worksheet.

Splitting into two 25-minute blocks

Block 1 covers minutes 0–25, ending after two cards. Block 2 opens with a 3-minute recap, then the last two cards, the sort, discussion and the exit ticket.

Guidance for the discussion questions

Question 1. It measures assets minus liabilities on one date. It does not measure whether the business earns enough to pay its interest: McDonald's operating income covered its FY2025 interest about 7.8 times, as its page shows.

Question 2. Lowe's paid $211 million for its own shares in FY2025, and its 10-K says the program paused.

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

Question 3. Its buybacks paused in March 2024 and none were made in FY2025, so profit kept added to equity while dividends were paid.

Question 4. Years of net losses on the income statement (Road 1), against repurchases and dividends in the statement of shareholders' equity (Road 2). Retained earnings can be below zero on either road, because some companies take buybacks from retained earnings. Accept descriptions; do not accept "broke," "safe" or "risky."

Sentence frames

- "On ____ (date), ____'s equity was ____ (above / below) zero."
- "The card says ____, which explains it because ____."
- "Equity went up / down because ____ (filing)."

Differentiation: ELL

- A bucket picture: profit kept fills it; dividends and buybacks drain it.
- Word bank: assets, liabilities, equity, deficit, retained earnings, treasury stock, buyback, dividend, bankruptcy, balance sheet.
- Sentence frames (above).

Differentiation: IEP

- Part C with the sign column filled in; students copy the reason from each card.
- Two cards only: McDonald's and Home Depot.
- Large print: enlarge the worksheet when printing (tabloid paper works well).
- Shorter exit ticket: questions 1 and 2 only.

Differentiation: Advanced

- Starbucks's long-term deferred revenue was $5.6 billion on Sep 27, 2026, mostly what remains of about $7 billion Nestlé paid up front in fiscal 2018. Starbucks books it as revenue over time; it is not debt.
- Ask: why is this a liability, why is it not debt, and how does it affect Starbucks's equity?

student page

Scan the code or type: **cityfort.co/class/negative-equity**

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

Sources

1. S1: McDonald's: Form 10-K, fiscal year 2025 (ended Dec 31, 2025), McDonald's Corporation (SEC EDGAR), Feb 24, 2026. https://www.sec.gov/Archives/edgar/data/63908/000006390826000035/mcd-20251231.htm
2. S2: McDonald's: Form 10-Q, Q2 2026 (quarter ended Jun 30, 2026), McDonald's Corporation (SEC EDGAR), Aug 7, 2026. https://www.sec.gov/Archives/edgar/data/63908/000006390826000073/mcd-20260630.htm
3. S3: Starbucks: Q4 and fiscal 2026 earnings release (Form 8-K, Exhibit 99.1, Oct 29, 2026), Starbucks Corporation (SEC EDGAR), Oct 29, 2026. https://www.sec.gov/Archives/edgar/data/829224/000082922426000154/sbux-09272026xearningsrele.htm
4. S4: Starbucks: Form 10-K for fiscal year 2023 (ended Oct 1, 2023), Starbucks Corporation (SEC EDGAR), Nov 17, 2023. https://www.sec.gov/Archives/edgar/data/829224/000082922423000058/sbux-20231001.htm
5. S5: Starbucks: Form 10-K for fiscal year 2025 (ended Sep 28, 2025), Starbucks Corporation (SEC EDGAR), Nov 14, 2025. https://www.sec.gov/Archives/edgar/data/829224/000082922425000114/sbux-20250928.htm
6. S6: Lowe's: Form 10-K for fiscal 2025 (year ended Jan 30, 2026), Lowe's Companies, Inc. (SEC EDGAR), Mar 23, 2026. https://www.sec.gov/Archives/edgar/data/60667/000006066726000029/low-20260130.htm
7. S7: Lowe's: Form 10-K for fiscal 2022 (53 weeks, year ended Feb 3, 2023), Lowe's Companies, Inc. (SEC EDGAR), Mar 27, 2023. https://www.sec.gov/Archives/edgar/data/60667/000006066723000034/low-20230203.htm
8. S8: Lowe's: Form 10-Q for Q2 fiscal 2026 (quarter ended Jul 31, 2026), Lowe's Companies, Inc. (SEC EDGAR), Aug 27, 2026. https://www.sec.gov/Archives/edgar/data/60667/000006066726000117/low-20260731.htm
9. S9: Home Depot: Form 10-K for fiscal 2025 (year ended Feb 1, 2026), The Home Depot, Inc. (SEC EDGAR), Mar 18, 2026. https://www.sec.gov/Archives/edgar/data/354950/000162828026019436/hd-20260201.htm
10. S10: Home Depot: Form 10-K for fiscal 2023 (year ended Jan 28, 2024), The Home Depot, Inc. (SEC EDGAR), Mar 13, 2024. https://www.sec.gov/Archives/edgar/data/354950/000035495024000062/hd-20240128.htm
11. S11: Home Depot: Form 10-K for fiscal 2021 (year ended Jan 30, 2022), The Home Depot, Inc. (SEC EDGAR), Mar 23, 2022. https://www.sec.gov/Archives/edgar/data/354950/000035495022000070/hd-20220130.htm
12. S12: Home Depot: Form 10-Q for Q2 fiscal 2026 (quarter ended Aug 2, 2026), The Home Depot, Inc. (SEC EDGAR), Aug 25, 2026. https://www.sec.gov/Archives/edgar/data/354950/000162828026058715/hd-20260802.htm

Credit and license

"Debt, cash and staying power: Lesson 4 – Negative equity is not the same as bankruptcy" by Cityfort (cityfort.co/teachers/debt-cash-and-staying-power/negative-equity), CC BY-NC 4.0. Data from McDonald's FY2025 Form 10-K, filed Feb 24, 2026; McDonald's Q2 FY2026 Form 10-Q, filed Aug 7, 2026; Starbucks's FY2026 earnings release (Form 8-K), filed Oct 29, 2026; Starbucks's FY2025 Form 10-K, filed Nov 14, 2025; Lowe's FY2025 Form 10-K, filed Mar 23, 2026; Lowe's Q2 FY2026 Form 10-Q, filed Aug 27, 2026; Home Depot's FY2025 Form 10-K, filed Mar 18, 2026; and Home Depot's Q2 FY2026 Form 10-Q, filed Aug 25, 2026.

If you change this material, please remove the Cityfort name or mark it as modified; changed versions are not reviewed by Cityfort. Company names are trademarks of their owners; Cityfort is not affiliated with or endorsed by them.

No ads in any lesson file. Student pages carry at most one non-personalized ad. No student logins. Questions or corrections: cityfort.co/contact.

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

Data from McDonald's FY2025 Form 10-K, filed Feb 24, 2026; McDonald's Q2 FY2026 Form 10-Q, filed Aug 7, 2026; Starbucks's FY2026 earnings release (Form 8-K), filed Oct 29, 2026; Starbucks's FY2025 Form 10-K, filed Nov 14, 2025;

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

Lowe's FY2025 Form 10-K, filed Mar 23, 2026; Lowe's Q2 FY2026 Form 10-Q, filed Aug 27, 2026; Home Depot's FY2025 Form 10-K, filed Mar 18, 2026; and Home Depot's Q2 FY2026 Form 10-Q, filed Aug 25, 2026. Checked Nov 15, 2026.

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.