CONNOR GROUP

ASC 842 DISCLOSURE STUDY

Companies with Market Cap of $500 Million to $1 Billion

Evaluation of YTD 2019 Filings

August 2019

STUDY CRITERIA

This study was performed by Connor Group in August 2019 to provide an overview of disclosures regarding the adoption of ASC 842 Leases made during Q1 and Q2 of 2019.

This study was conducted in August 2019 based on disclosures in SEC filings of 199 companies. The population of relevant disclosures and filings were determined and retrieved via searches within MYLOGIQ CompanyIQ using the following criteria:

- Companies with market capitalization between $500 million and $1 billion
- Quarterly filings between January 1, 2019 and August 15, 2019
- All industries except financial services and energy and mining
- Disclosure language includes keywords “Topic 842,” “ASU 2016-02,” “ASC 842,” or “Lease Assets”
  - Note that filings that do not include the disclosure language above would not be included in the population of this study
- Information related to lessee transactions

Q2 Update:

- The information included on the following slides and graphs was developed using Q1 2019 data
- Connor Group reviewed Q2 2019 filings to identify if significant changes in disclosures were identified after adoption in the first quarter
- No significant additional disclosures, changes to existing disclosures, and changes to presentation were noted in Q2 2019 filings

An example of a registrant’s Q1 2019 disclosure has been included as an Exhibit at the end of this study.

Adoption Method:

100% of the companies used the effective date approach which does not adjust prior period balances.

Adoption Adjustment:

17% disclosed an adjustment to retained earnings:

- The main adoption adjustments were due to initial impairment of ROU assets and deferred gains on sale leaseback transactions.

Balance Sheet:

Finance Leases

- Approximately **65%** of companies did not disclose balances because they do not have any finance leases, or they are immaterial.

Operating Leases

- Approximately **80%** separately disclosed ROU assets / lease liabilities.

Practical Expedients:

- **91%** adopted the package of 3 practical expedients.
- **85%** adopted the short-term lease expedient and **14%** did not specifically make note.
- **68%** adopted the expedient not to separate lease and nonlease components and **19%** did not specifically make note.

Discount Rate Range:

- **Finance Leases**

  Q1: 1.2% - 24.3%
  Q2: 1.2% - 24.3%

- **Operating Leases**

  Q1: 2.1% - 15.3%
  Q2: 2.3% - 15.2%

Average Discount Rate:

- **Finance Leases**

  Q1: 6.8%
  Q2: 6.8%

- **Operating Leases**

  Q1: 6.5%
  Q2: 6.6%

Term Range:

- **Finance Leases**

  Q1: 1.0 - 19.8 years
  Q2: 0.8 - 19.9 years

- **Operating Leases**

  Q1: 1.1 - 27.0 years
  Q2: 0.9 - 24.0 years

Average Term:

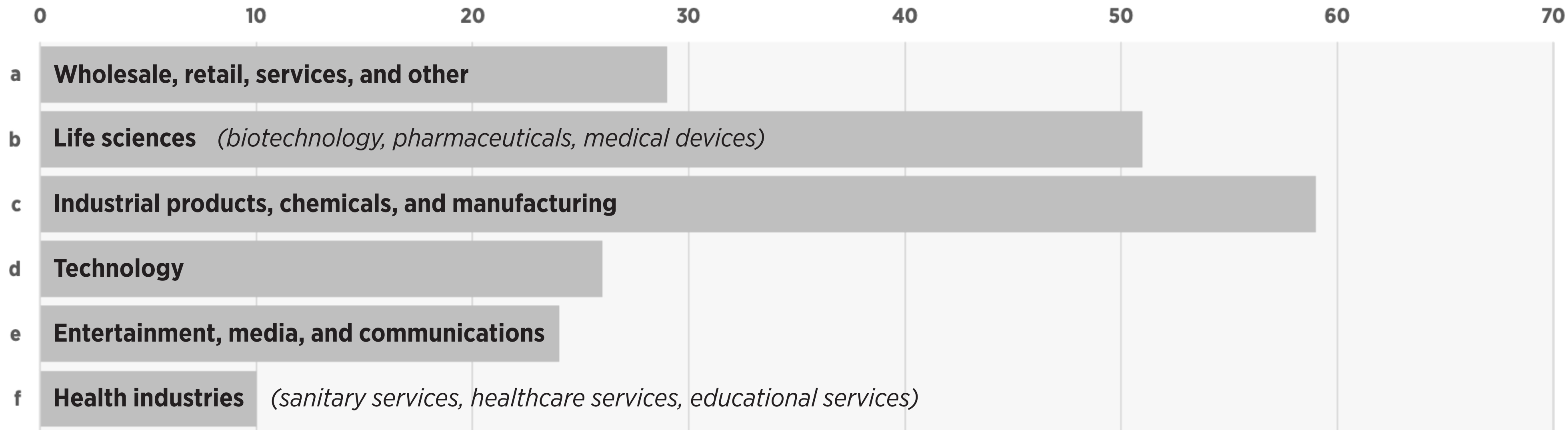
- **Finance Leases**

  Q1: 5.0 years
  Q2: 4.9 years

- **Operating Leases**

  Q1: 6.4 years
  Q2: 6.4 years

SAMPLED COMPANIES BY INDUSTRY



The industry grouping is based on standard industrial classification (SIC) codes in the SEC filings.

FINANCE AND OPERATING LEASES - LESSEES

Adoption Date:

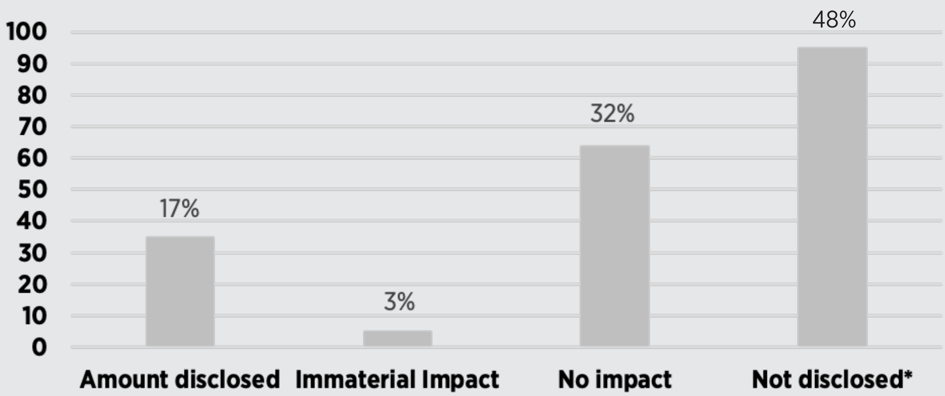
- The standard adoption date for calendar year-end public companies is 1/1/2019.
- Of the 199 companies, there were no early adopters.

Adoption Method:

- Two available adoption methods:
  - **Adjust comparative periods** (comparative method): Apply the standard to each lease that existed at the beginning of the earliest comparative period presented. For leases that existed prior to that, a cumulative-effect adjustment is recognized at that date.
  - **Do not adjust comparative periods** (effective date method): Apply the standard to each lease that had commenced as of the initial application date with a cumulative-effect adjustment as of that date. Prior period balances are not affected.
- 100% of the filers adopted using the effective date method.

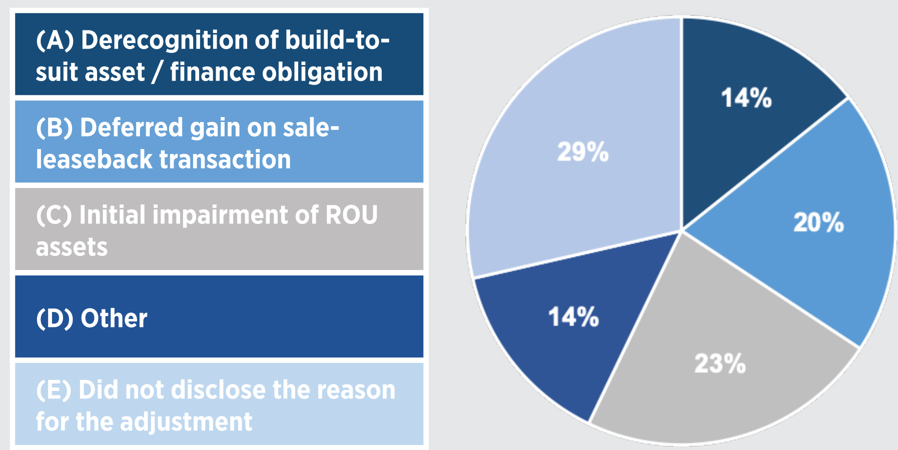
Adoption Impact:

Financial impact from the cumulative-effect adjustment upon adoption



Not disclosed *assumes no or immaterial impact.*

For entities that disclosed a specific adoption amount recorded to retained earnings, the primary reason for the adjustment was as follows:



FINANCE AND OPERATING LEASES - LESSEES

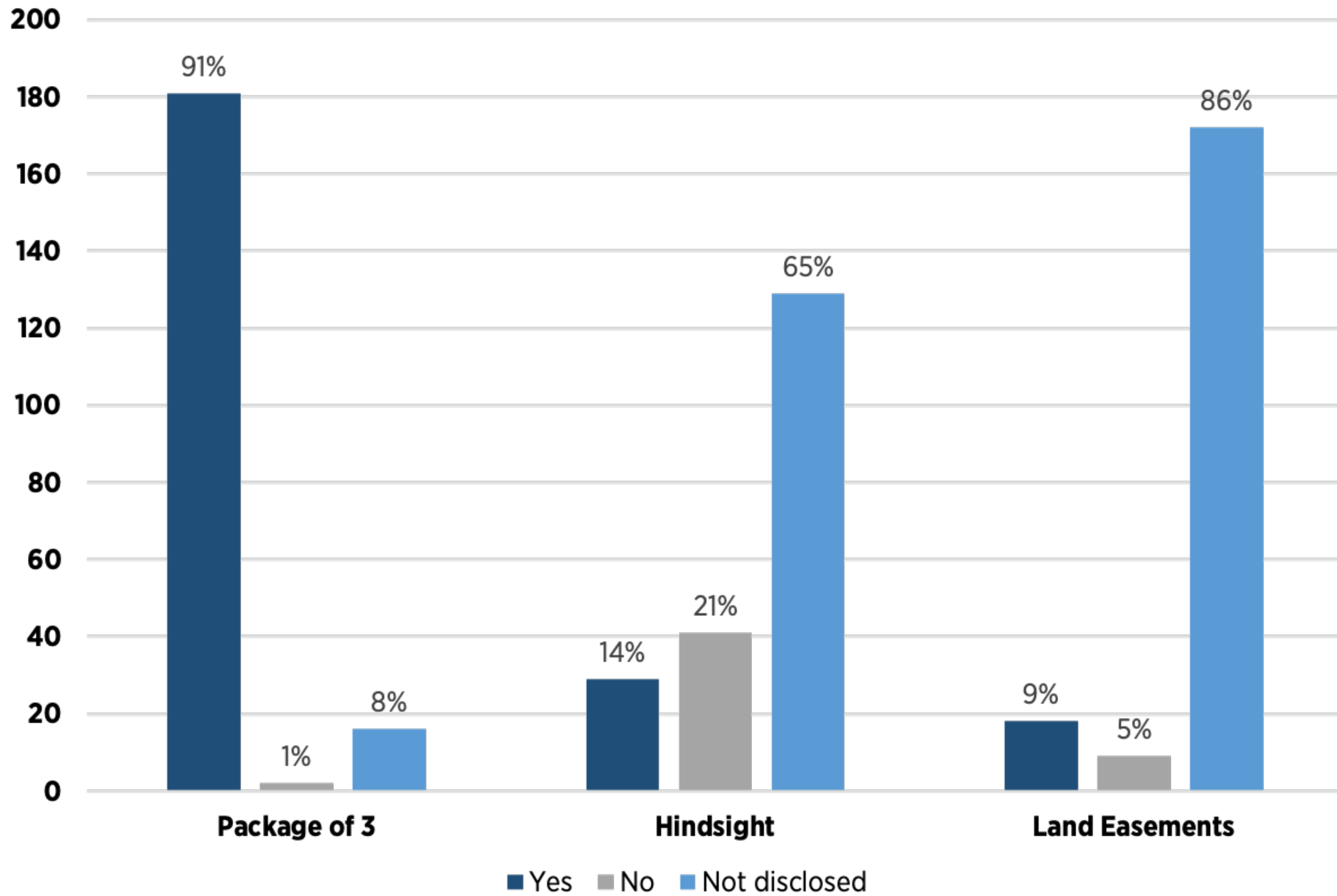
Practical Expedient:

There are various optional practical expedients available for transition accounting. An entity is required to disclose the election of any of these practical expedients.

- The **package of 3** practical expedients to not reassess:
  - Whether a contract is or contains a lease
  - Lease classification
  - Initial direct costs
- The practical expedient to use **hindsight** when determining the lease term
- The practical expedient to not reassess certain **land easements**

Each of the practical expedients can be elected separately from the other two.

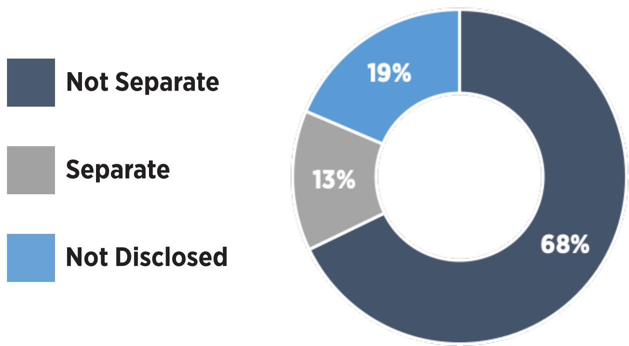
All of the above practical expedients should be applied consistently by an entity to all of its existing leases.



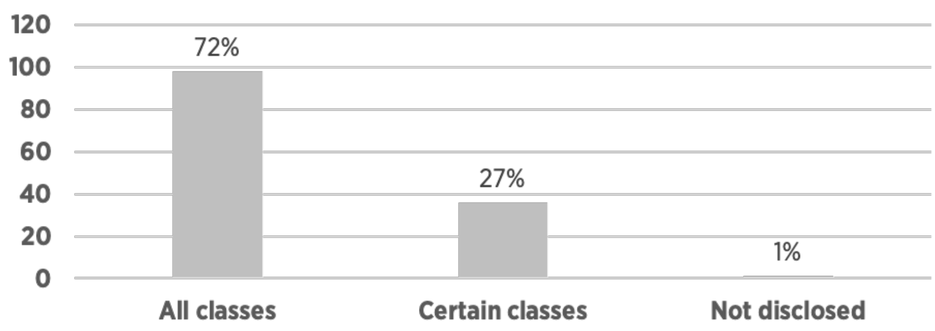
FINANCE AND OPERATING LEASES - LESSEES

Separating Lease and Nonlease Components:

An entity may elect an accounting policy, by underlying asset class, to not separate lease and nonlease components in a lease agreement and combine them in a single component.



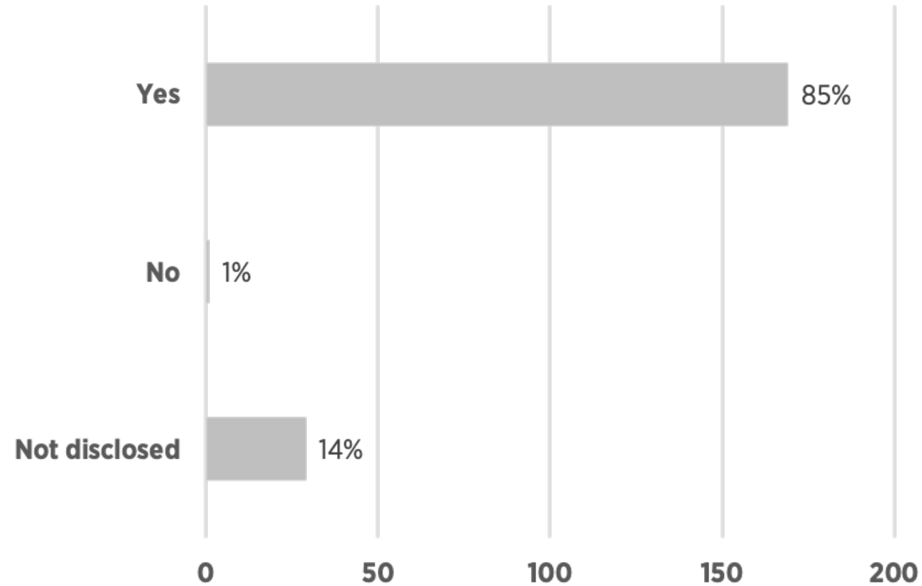
Of the 135 entities that elected the expedient, the following chart depicts whether they elected it for all classes or only certain classes of underlying assets.



Short-Term Exemption:

Under ASC 842-20-25-2, a lessee may elect not to measure and recognize leases with a term of 12 months or less in accordance with Topic 842. This election can be made on an underlying asset class basis.

The following graph shows the number of entities that elected this exemption:

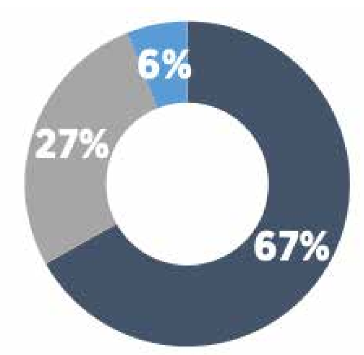


FINANCE AND OPERATING LEASES - LESSEES

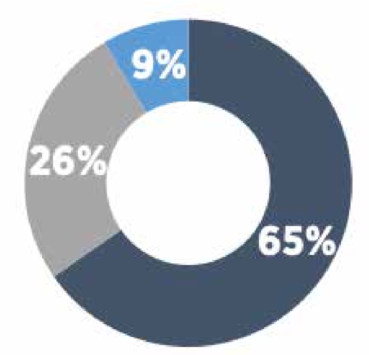
Under ASC 842-20-45-1, a lessee should present finance and operating lease ROU assets and lease liabilities separately from other financial statement line items or disclose in a footnote which line items those amounts are included.

Finance Leases: A significant amount of companies fell in the 'not disclosed' or 'included in another FSLI' category as finance leases tend to be less material and more infrequent than operating leases.

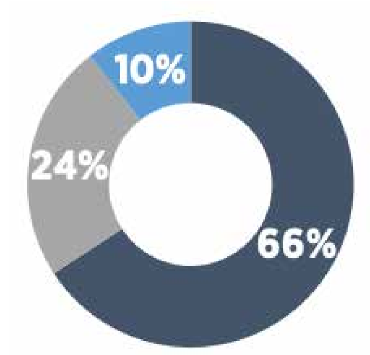
Assets



Short-term Liabilities



Long-term Liabilities



Not Disclosed

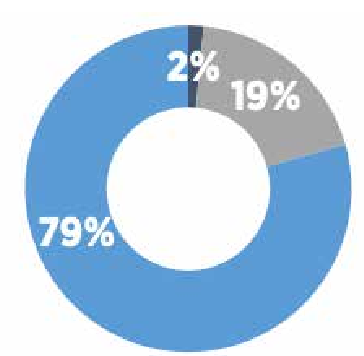
Included in another FSLI

Own FSLI

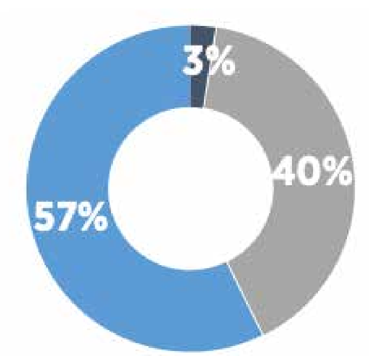
**Key notes:* FSLI = Financial statement line item; Included in another FSLI = lease related amounts included in an existing FSLI and such information is disclosed in a footnote; Not disclosed = lease related amounts were not separately stated on the face of the balance sheet nor was the line item in which the amounts are included disclosed in the footnote disclosure.*

Operating Leases: Most companies disclosed operating leases separately due to the materiality and volume of leases that required recognition as a result of adoption.

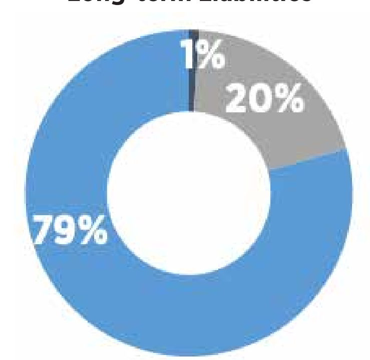
Assets



Short-term Liabilities



Long-term Liabilities



FINANCE AND OPERATING LEASES - LESSEES

ASC 842-20-45-5:

In the statement of cash flows, a lessee shall classify all of the following:

- Repayments of the principal portion of the lease liability arising from finance leases within financing activities
- Interest on the lease liability arising from finance leases in accordance with the requirements relating to interest paid in Topic 230 on cash flows
- Payments arising from operating leases within operating activities, except to the extent that those payments represent costs to bring another asset to the condition and location necessary for its intended use, which should be classified within investing activities
- Variable lease payments and short-term lease payments not included in the lease liability within operating activities.

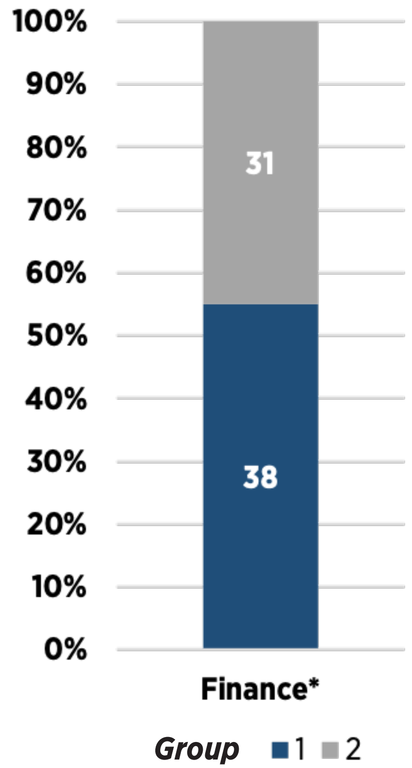
Finance Leases

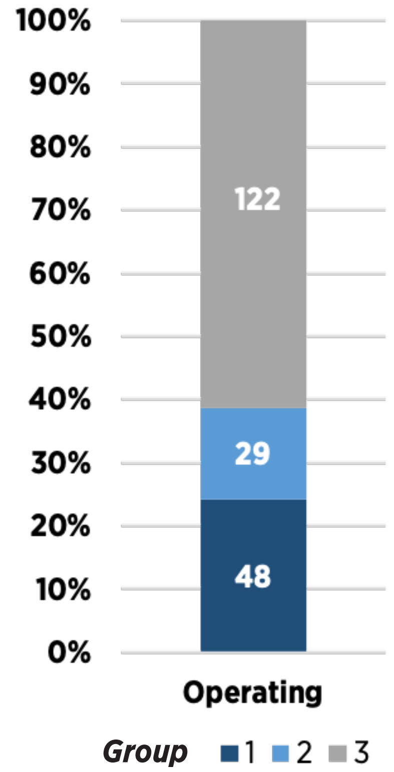
1 Lessee includes "**amortization expense**" as a noncash add-back to the operating activities section of the statement of cash flows, which is calculated on a straight-line basis.

Principal portion of the cash payment is reflected in the financing section as "**principal paid**."

2 Lessee includes changes into existing cash flow line items (i.e. changes in other liabilities).

**This population only includes 69 filers that presented finance leases separately on the balance sheet or disclosed the balance within the footnotes.*





Operating Leases

1 ROU reduction portion of lease expense recorded as "**noncash lease expense**" in the non-cash add-back section of operating activities.

The change in the lease liability balance was recorded as "**change in operating lease liabilities**" in operating activities.

2 Disclose "**change in ROU asset**" and the "**change in operating lease liability**" as separate line items within the operating activities section.

3 Lessee includes changes into existing cash flow line items (i.e. changes in other liabilities).

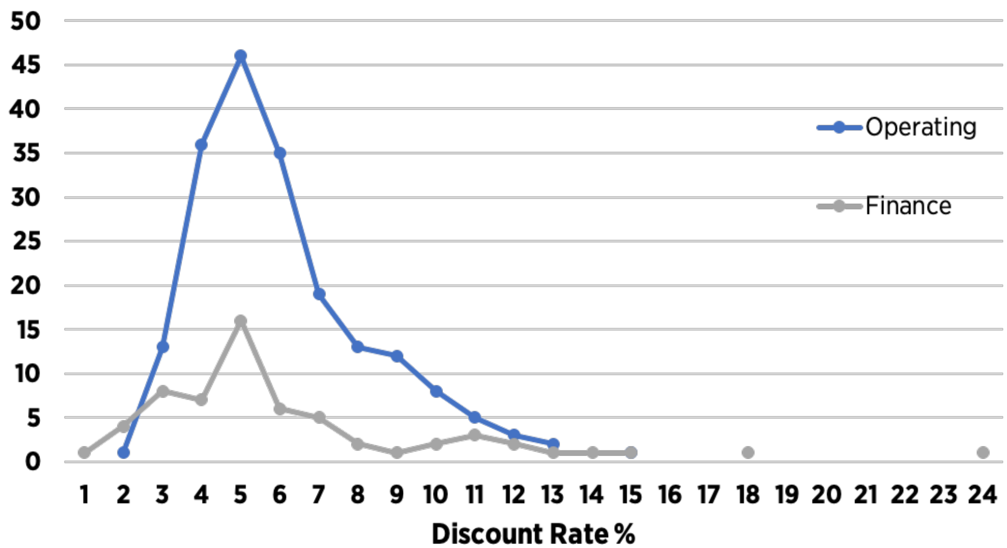
FINANCE AND OPERATING LEASES - LESSEES

- For each period presented, a lessee should disclose the weighted-average discount rate segregated between finance and operating leases.
- A lessee should consider disclosing certain information about the significant assumptions and judgments used to determine its discount rate.

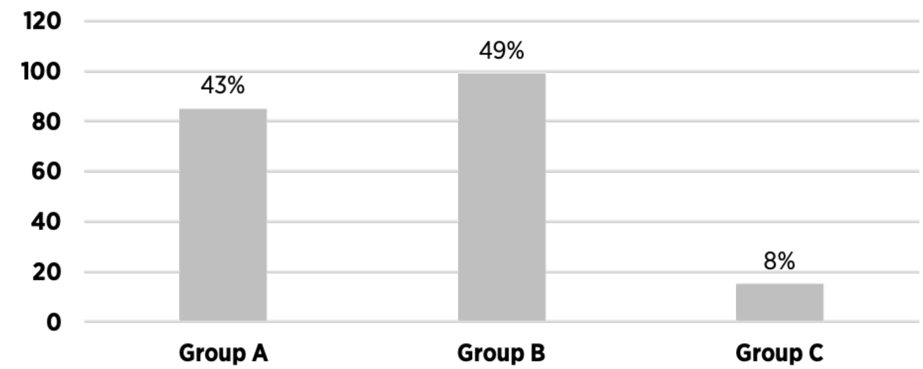
What are the weighted-average discount rates disclosed?

	Average	Median	Range
Operating lease	6.5%	6.0%	2.1 – 15.3%
Finance lease	6.8%	5.6%	1.2 – 24.3%

The chart below shows the range and concentration of discount rates disclosed for operating and finance leases.



How do the companies discuss the determination of the discount rate?



Group A: Company-specific information included
Group B: Generic language included
Group C: Not discussed

Example – Group A:

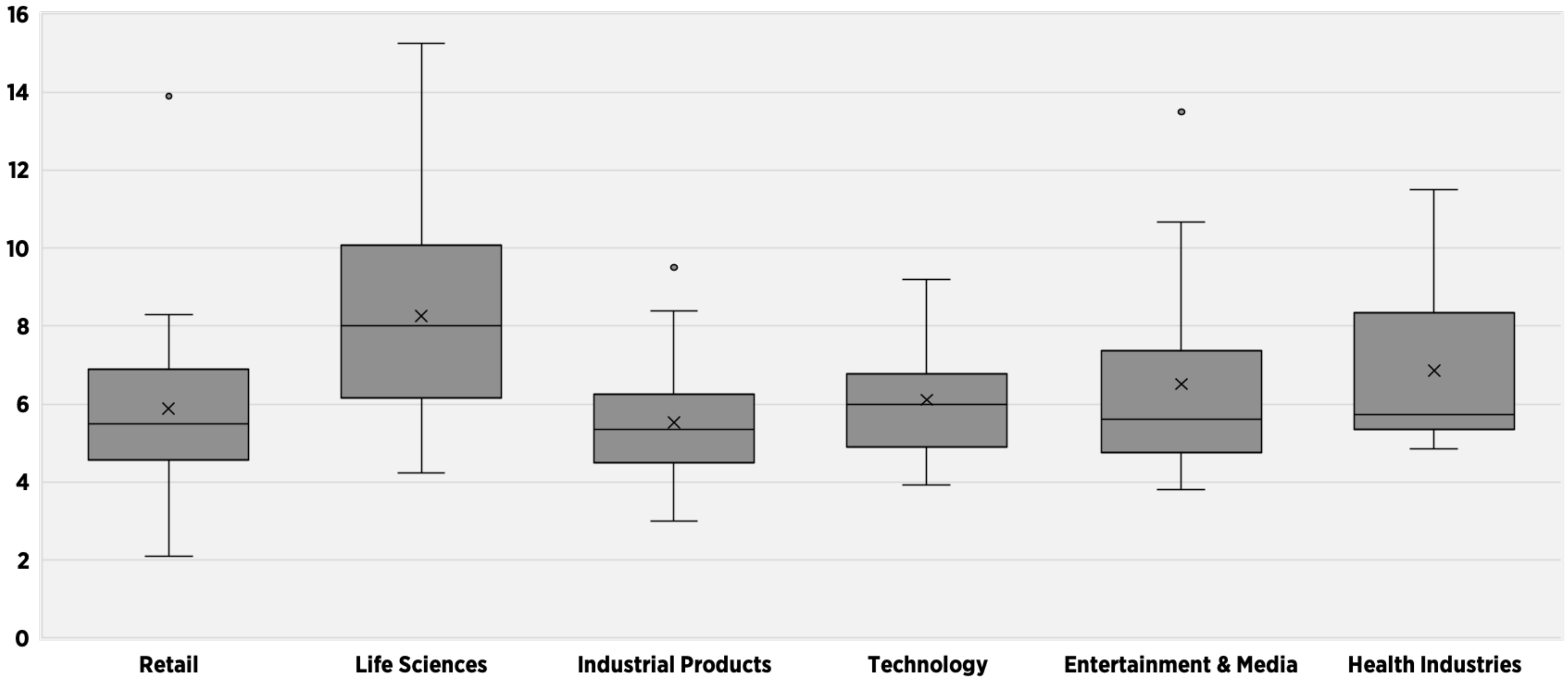
"The incremental borrowing rate is not a commonly quoted rate and is derived through a combination of inputs including the Company's credit rating and the impact of full collateralization. The incremental borrowing rate is based on the Company's collateralized borrowing capabilities over a similar term of the lease payments. The Company utilizes the consolidated group incremental borrowing rate for all leases as the Company has centralized treasury operations."

Example – Group B:

"As most of the Company's leases do not provide the lessor's implicit rate, the Company uses its incremental borrowing rate at the commencement date in determining the present value of lease payments."

OPERATING LEASES - LESSEES

The chart below shows the range of the discount rates disclosed by industry for operating leases only. The lines represent the range of the discount rates disclosed for each industry. The shaded box represents the concentration of the discount rates. The "X" in each shaded box represents the mean or average discount rate for each industry. The line within each shaded box represents the median or middle discount rate within the range for each industry. Any points outside of the range represent outlier points.



QUALITATIVE & QUANTITATIVE DISCLOSURES — Finance and Operating Leases - Lessees

According to ASC 842-20-50-3, a lessee should disclose information about the nature of its leases, how variable lease payments are determined, treatment of termination and extension options, existence and terms of residual value guarantees, and restrictions or covenants imposed by leases.

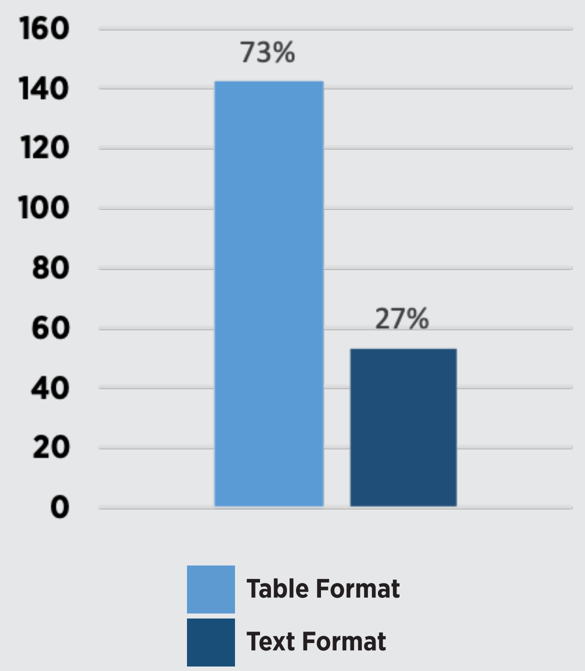
According to ASC 842-20-50-4, a lessee should disclose amounts relating to a lessee's total lease cost, which includes cash flows from finance lease costs, operating lease costs, short-term lease costs, variable lease costs, sublease income, and net gain or loss recognized from sale and leaseback transactions.

According to ASC 842-20-50-4 (g), a lessee should disclose amounts segregated between those for finance and operating lease liabilities for cash paid for amounts included in the measurement of lease liabilities and supplemental noncash information on lease liabilities arising from right-of-use assets.

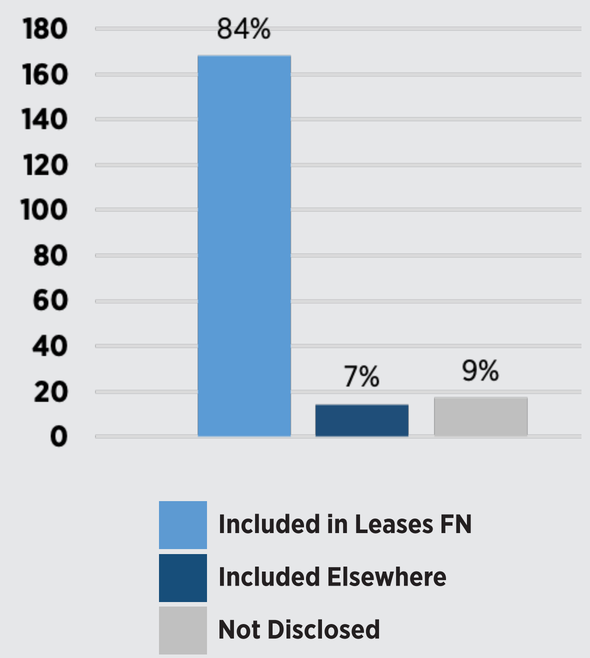
Lease Disclosure:

- **Separate footnote:** 83% of entities included a separate footnote for lease arrangements.
- **Level of qualitative information:** 149 out of 199 companies provided brief descriptions with a general summary of the lease assets; 50 companies provided more detailed information, e.g. location, square footage, timeline, etc.
- **Examples of information disclosed:**
  - *"Our lease agreements may include options to extend or terminate the lease. When it is reasonably certain that we will exercise that option, we have included the option in the recognition of right-of-use assets and lease liabilities."*
  - *"Variable lease payments, which represent lease payments that vary due to changes in facts or circumstances occurring after the commencement date other than the passage of time, are expensed in the period in which the obligation for these payments was incurred."*

Presentation of Lease Costs:



Presentation of Supplementary Cash Flow Information:



EXAMPLE — comScore, Inc.

2. Summary of Significant Accounting Policies

Leases

The Company applies the provisions of Accounting Standards Codification ("ASC") 842, Leases. The Company's lease portfolio is comprised of three major classes. Real estate leases, which are the majority of the Company's leased assets, are accounted for as operating leases. Computer equipment and automobile leases, which comprise the remaining two lease classes in the Company's portfolio, are generally accounted for as finance leases.

The Company determines if an arrangement is a lease at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. Right-of-use ("ROU") assets and lease liabilities are recognized at the lease commencement date based on the present value of the future minimum lease payments over the lease term. Operating ROU assets also include the impact of any lease incentives.

For any leases in which an asset is not specifically identified, the Company performs a discrete analysis to identify whether there is an implicitly identified asset based on the contractual or other known requirements, such as the presence of substantive substitution rights on the part of the supplier or the right of the Company to sublease the asset. As part of this analysis, the Company also determines whether there are any restrictions on the use of the asset placed on the Company that are not considered protective rights on the part of the supplier and thus would allow the Company to assume which specific assets have been identified.

The Company identifies separate lease and non-lease components within the contract. Non-lease components primarily include payments for common-area maintenance and management charges. The Company has elected to combine lease and non-lease payments and account for them together as a single lease component, which increases the amount of the Company's ROU assets and lease liabilities.

The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate, because the interest rate implicit in the Company's leases is not readily determinable. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The Company's current discount rates range from 12% to 15% depending on the term of the arrangement.

The Company's lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company considers contractual-based factors such as the nature and terms of the renewal or termination, asset-based factors such as physical location of the asset and entity-based factors such as the importance of the leased asset to the Company's operations to determine the lease term. The Company generally uses the base, non-cancelable, lease term when determining the ROU assets and lease liabilities.

Payments under the Company's lease arrangements are primarily fixed; however, certain lease agreements contain variable payments, which are expensed as incurred and not included in the measurement of ROU assets and lease liabilities. These amounts include payments affected by changes in the Consumer Price Index and payments for common-area maintenance, real estate taxes and utilities, which are based on usage or performance.

Operating leases are included in operating ROU assets, current operating lease liability, and non-current operating lease liability in the Condensed Consolidated Balance Sheets. The Company recognizes lease expense for its operating leases on a straight-line basis over the term of the lease. Finance lease activity is included in property and equipment, net; current finance lease liabilities are aggregated into other current liabilities; and non-current finance lease obligations are aggregated in other non-current liabilities in the Company's Condensed Consolidated Balance Sheets. Finance ROU assets are amortized on a straight-line basis over their estimated useful lives.

Income from subleased properties is recognized on a straight-line basis and presented as a reduction of general and administrative expense in the Company's Condensed Consolidated Statement of Operations. In addition to sublease rent, variable non-lease costs such as common-area maintenance and utilities are charged to subtenants over the duration of the lease for their proportionate share of these costs. These variable non-lease income receipts are recognized in operating expenses as a reduction to costs incurred by the Company in relation to the head lease.

EXAMPLE — comScore, Inc.

Change in Accounting Policy

The Company adopted ASC 842, with a date of initial application of January 1, 2019, using the modified retrospective transition method with optional transition relief, under which the Company did not restate prior comparative periods and instead recorded an adjustment to stockholders' equity as of the date of initial implementation for the cumulative impact of adoption.

As part of the transition, the Company implemented new internal controls and key system functionality to enable the preparation of financial information on adoption, and elected the following practical expedients:

- Not to reassess whether any expired or existing contracts are or contain leases.
- Not to reassess the lease classification for any expired or existing leases.
- Not to reassess initial direct costs for any existing leases.
- The hindsight practical expedient in determining the lease term.
- The practical expedient whereby the lease and non-lease components will not be separated for all classes of assets.
- Not to record ROU assets and corresponding lease liabilities with a lease term of 12 months or less.

The Company has elected to net its sublease exit liabilities recognized under ASC 420, Exit or Disposal Cost Obligations as an adjustment to the opening ROU asset for the corresponding head lease established upon the adoption of ASC 842. Sublease exit liabilities had a carrying value of $2.5 million as of December 31, 2018.

Upon adoption, ASC 842 had an impact in the Company's Condensed Consolidated Balance Sheets, but did not have an impact in its Condensed Consolidated Statement of Operations. The adoption of ASC 842 impacted the Company's previously reported results as follows:

(In thousands)	As Previously reported as of December 31, 2018	New lease standard adjustments	As adjusted as of January 1, 2019
Operating right-of-use assets	$ --	$ 42,472	$ 42,472
Property and equipment, net	27,339	(203)	27,136
Current capital lease obligations	2,421	(161)	2,260
Current restructuring accrual	5,479	(708)	4,771
Current deferred rent	1,884	(1,884)	--
Current operating lease liabilities	--	7,846	7,846
Non-current restructuring accrual	1,810	(1,810)	--
Non-current deferred rent	10,304	(10,304)	--
Non-current capital lease obligations	1,182	3	1,185
Non-current operating lease liabilities	--	49,333	49,333
Stockholder's equity	551,567	(46)	551,521

EXAMPLE — comScore, Inc.

8. Leases

The Company has operating leases for real estate and finance leases for computer equipment and automobiles. These leases have remaining lease terms of 1 year to 10 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year. As of March 31, 2019, the weighted average remaining lease term for our finance leases and operating leases was 1.24 years and 6.98 years, respectively. As of March 31, 2019, the weighted average discount rate for our finance leases and operating leases was 15.1% and 13.5%, respectively.

The components of lease cost for the three months ended March 31, 2019 were as follows:

(In thousands)	**Three Months Ended March 31, 2019**	
Finance lease cost		
Amortization of right-of-use assets[1]	$	574
Interest on lease liabilities		73
Total finance lease cost	$	647
Operating lease cost[1]		
Fixed lease cost	$	3,174
Short-term lease cost		179
Variable lease cost		429
Sublease income		(389)
Total operating lease cost	$	3,393

[1] *The lease costs, net of sublease income, are reflected in the Condensed Consolidated Statement of Operations and Comprehensive Loss as follows.*

Three Months Ended March 31, 2019

(In thousands)	**Amortization of Right-of-Use Assets**		**Operating Lease Cost**	
Cost of revenues	$	421	$	1,101
Selling and marketing		61		1,164
Research and development		61		749
General and administrative		31		379
	$	574	$	3,393

Other information related to leases was as follows:

(In thousands)	**Three Months Ended March 31, 2019**	
Supplemental Cash Flows Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$	73
Operating cash flows from operating leases		5,159
Financing cash flows from finance leases		694
Right-of-use assets obtained in exchange for lease obligations:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$	336

EXAMPLE — comScore, Inc.

Maturities of finance and operating lease liabilities as of March 31, 2019 were as follows[1]:

(In thousands)	Operating Leases	Finance Leases
Reminder of 2019	$ 9,972	$ 1,458
2020	12,806	479
2021	12,288	287
2022	9,127	75
2023	9,726	43
Thereafter	31,478	--
Total lease payments	85,397	2,342
Less: imputed interest	(31,029)	(181)
Total lease liabilities	54,368	2.161
Less: current lease liabilities	(6,629)	(1,458)
Total non-current lease liabilities	$ 47,739	$ 703

[1] As of March 31, 2019, the Company has a rental commitment of approximately $4.4 million for equipment that has not yet commenced. This finance lease is expected to commence in the second quarter of 2019 with a lease term of 36 months.

The Company currently subleases four real estate properties. These subleases have remaining lease terms of 2 years to 9 years. None of the subleases contain any options to renew or terminate the sublease agreement. Future expected cash receipts from subleases as of March 31, 2019 were as follows:

(In thousands)	Sublease Receipts
Remainder of 2019	$ 1,186
2020	1,693
2021	1,597
2022	1,551
2023	1,145
Thereafter	2,905
Total sublease receipts	$ 10,077

ABOUT CONNOR GROUP

Connor Group is a specialized professional services firm of Big 4 alumni and industry executives. Our team of highly experienced professionals helps financial executives with their most complex and significant matters, including financial accounting and operations, IPO and M&A services, digital solutions, and managed services. Our clients are the world's top growth companies, and we support them as they change the world and create new markets! The firm was founded in 2006 and has grown to more than 250 professionals with core offices in Silicon Valley, San Francisco, New York, Salt Lake City, and Boston.

We have served more than 800 clients on six continents and have a 55-percent market share for Silicon Valley IPOs in recent years. Our client portfolio includes multi-billion dollar public, mid-cap public, and pre-IPO companies ranging from early stage to late stage. Our global clients represent the most exciting industries including high tech, Internet, social networking, gaming, software, ad tech, cleantech, life sciences, financial services, consumer products, biotech, services, and manufacturing. Our goal at Connor Group is to be the most respected firm across our service lines by delivering the highest quality services to our clients. We are hired by finance and accounting executives who understand the importance of leveraging their time as well as having a partner that can successfully execute their needs.

FOR MORE INFORMATION PLEASE CONTACT:

Laurie Marchand
Partner, Technical Accounting
Practice Leader
Laurie.Marchand@connorgp.com

Dominick Kerr
Partner, Technical Accounting
Dominick.Kerr@connorgp.com

Caroline Yan
Sr. Manager, Technical Accounting
Caroline.Yan@connorgp.com

Alexandra Bresso
Manager, Technical Accounting
Alexandra.Bresso@connorgp.com