

This fragment, second most deceptive among The We Company's S-1 was assessed with a D.A.T.A. Score of **-46.5%** and features much language about its sources of Other Revenues, contracts with customers, and the company's operating lease arrangements. To our knowledge, the content of these sections was never a part of why investors soured on The We Company's IPO.

BEGINNING OF EXCERPT

Other Revenue—Other revenue includes income generated from sponsorships and ticket sales from WeWork branded events and is recognized upon the occurrence of the event. Other revenue also includes other management and advisory fees earned, design fees earned and revenue generated from various We Company offerings. The Company recognizes these revenues over time, on a monthly basis, as the services are performed.

Other revenue also includes revenue earned for design and development services performed, which are recognized as revenue over time based on a percentage of contract costs incurred to date compared to the total estimated contract cost. The Company identifies only the specific costs incurred which contribute to the Company's progress in satisfying

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the performance obligation. Contracts are generally segmented between types of services, such as consulting contracts, design and construction contracts, and operate contracts. Revenues related to each respective type of contract are recognized as or when the respective performance obligations are satisfied. When total cost estimates for these types of arrangements exceed revenues in a fixed-price arrangement, the estimated losses are recognized immediately. The Company performs ongoing profitability analyses of its design and build services contracts accounted for using a cost-to-cost measure of progress in order to

determine the accuracy of the latest estimates of revenues, costs and profit margins. Changes to total contract revenue, and estimated cost or losses, if any, are recognized on a cumulative catch-up basis in the period in which they are determined and may result in increases or decreases in revenues or costs. Significant judgment is required when estimating total cost including future labor and expected efficiencies, as well as whether a loss is expected to be incurred on the project. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the customer. If the costs are recoverable, contract costs are capitalized and amortized over time consistent with the transfer of the services to which the asset relates.

Billing terms and conditions generally vary by contract category. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., upfront, monthly, or quarterly) or upon achievement of contractual milestones. For most of our standard memberships which are typically invoiced monthly, our payment terms are immediate. In most cases where timing of revenue recognition significantly differs from the timing of invoicing, the Company has determined that its contracts do not include a significant financing component. The Company elects the financing component practical expedient and does not adjust the promised amount of consideration in contracts where the time between cash collection and performance is less than one year.

Members' Service Retainers—Prior to moving into an office, members are generally required to provide the Company with a service retainer as detailed in their membership agreement. In the event of non-payment of membership or other fees by a member, pursuant to the terms of the membership agreements, the amount of the service retainer may be applied against the member's unpaid balance. The Company recognizes members' service retainers as a liability as the Company expects to refund some or all of that consideration to the member.

Contract Assets and Receivables—The Company classifies the right to consideration in exchange for solutions or services provided to a customer as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional as compared to a contract asset which is a right to consideration that is conditional upon factors other than the passage of time. Contracts that contain both contract assets and liabilities are recorded on a net basis. Contract assets that are expected to be billed beyond the next 12 months are considered long-term contract assets and included in other assets.

Deferred Revenue—Deferred revenue represents collections from customers for which revenue has not been recognized to date. Deferred revenue is classified as a current liability as it is expected to be recognized as revenue within the next twelve months.

Assets Recognized from the Costs to Obtain a Contract with a Customer— Incremental costs (e.g., member referral fees) of obtaining a contract are capitalized and amortized into expense on a straight-line basis over the underlying contract period if the Company expects to recover those costs. The incremental costs of obtaining a contract include only those costs the Company incurs to obtain a contract that it would not have incurred if the contract had not been obtained. The costs associated with significant member referral fees are amortized over the underlying contract period, even if the contract term is less than twelve months. As of December 31, 2018 and June 30, 2019, the Company had \$49.7 million and \$59.4 million, respectively, of prepaid member referral fees included in other current assets and had \$6.2 million and \$18.5 million, respectively, of prepaid member referral fees included in other assets on the accompanying condensed consolidated balance sheets. During the six months ended June 30, 2019, the Company recognized \$46.9 million of amortization of capitalized contract costs. The amortization of these costs is included as a component of sales and marketing expenses in the accompanying condensed consolidated statements of operations.

Taxes collected from customers and remitted to governmental authorities are presented on a net basis.

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ASC 606 Transition Disclosures

The impact of adopting ASC 606 for the six months ended June 30, 2019 was an increase to revenue of approximately \$0.9 million.

Contract Balances

The following table provides information about contract assets and deferred revenue from contracts with customers recognized in accordance with ASC 606:

Revenue recognized during the six months ended June 30, 2019, which was included in deferred revenue as of January 1, 2019, was \$89.3 million.

Remaining Performance Obligations and Total Committed Revenue Backlog

The following table presents the transaction price allocated to the Company's remaining performance obligations that represent contracted customer revenues that have not yet been recognized as revenue as of June 30, 2019, that will be recognized as revenue in future periods, over the life of the customer contracts, in accordance with either ASC 606 or ASC 842:

(1) Total non-cancelable contractual commitments, net of discounts, remaining under agreements entered into as of June 30, 2019, which we expect will be recognized as revenue subsequent to such date. The combination of the remaining performance obligation to be recognized as revenue under ASC 606 plus the remaining contract value of the Company's member contracts that qualify as leases is comparable to what the Company refers to as "Committed Revenue Backlog". The Company has excluded from these amounts contracts with variable consideration where revenue is recognized using the right to invoice practical expedient.

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Disaggregation of Revenue

The following table provides disaggregated detail of the Company's revenue by major source for the six months ended June 30, 2018 and 2019:

Note 4. Leasing Arrangements

In connection with the preparation of these interim condensed consolidated financial statements as of June 30, 2019, the Company adopted ASC 842 and the related amendments using the modified retrospective approach, as if such adoption had occurred on January 1, 2019. The results for reporting periods beginning after January 1, 2019 are presented in accordance with ASC 842, while prior period amounts were not adjusted and continue to be reported in accordance with ASC 840. The policies discussed below, and as otherwise discussed in Note 2, replace the lease policies disclosed in Note 2, "Summary of Significant Accounting Policies," of our financial statements for the year ended December 31, 2018 as it relates to the accounting and presentation of leases for 2019.

Lessee Accounting

The Company has a significant portfolio of real estate leases in connection with its business. The Company also leases certain equipment and has service contracts, including warehouse agreements, where we control identified assets, such as warehouse space, and therefore these arrangements represent embedded leases under ASC 842. The Company determines whether an arrangement is a lease at inception. For each lease arrangement identified, the Company determines its classification as an operating or finance lease.

At lease commencement, the Company recognizes a lease obligation and corresponding right-of-use asset based on the initial present value of the fixed lease payments using the Company's incremental borrowing rates for its population of leases. The incremental borrowing rate represents, the rate of interest the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The commencement date is the date the Company takes initial possession or control of the leased premise or asset, which is generally when the Company enters the leased premises and begins to make improvements in preparation for its intended use.

The Company's leases do not provide a readily determinable implicit discount rate. Therefore, management estimates the incremental borrowing rate used to discount the lease payments based on the information available at lease commencement. The Company utilized a model consistent with the credit quality for its outstanding debt instruments to estimate its specific incremental borrowing rates that align with applicable lease terms. As of June 30, 2019, the weighted average remaining lease term for leases included within the total lease obligation is 14 years for operating leases and 11 years for finance leases. As of June 30, 2019, the weighted average discount rate used for determining the total lease obligation and right-of-use asset was 8.2% for operating leases and 7.6% for financing leases.

Non-cancelable lease terms for most of the Company's real estate leases typically range between 10-20 years and may also provide for renewal options. Renewal options are typically solely at the Company's discretion and are only included within the lease obligation and right-of-use asset when the Company is reasonably certain that the renewal options would be exercised.

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The Company's leases may include base rent payments and rent payments that include escalation terms on the amount of base rent which may vary by market with examples including fixed-rent escalations or escalations based on an inflation index or other market adjustments. The escalations based on changes in inflation indexes and market adjustments are not included as lease payments in the calculation of the lease obligation or right-of-use asset and are included in variable lease cost when incurred.

Most leases require the Company to pay common area maintenance, real estate taxes, and other similar costs. Common area maintenance is considered

a non-lease component whereas real estate taxes are not components of a lease as defined in ASC 842. The Company has elected not to separate non-lease components from lease components for all asset classes in our lease portfolio. To the extent that such costs represent non-lease components and payments are fixed in the lease agreement, those costs are included in the lease payments used to calculate the lease obligation and are included within the total lease cost recognized on a straight-line basis over the lease term.

END OF EXCERPT