

EXHIBIT 1 The Lease Term

Paragraph 22(a) of SFAS 98 amended SFAS 13 by clarifying the factors to consider in establishing the proper lease term, particularly with respect to penalty provisions. Essentially, the lease term includes the fixed noncancelable term plus—

- periods covered by bargain renewal options;
- periods where the lessee's failure to renew the lease imposes a penalty (as defined) of such magnitude that, at the inception of the lease, renewal appears to be reasonably assured;
- ordinary renewal periods where the lessee is expected to guarantee the debt or provide a loan to the lessor that is directly or indirectly related to the leased property;
- renewal or extension periods that are at the option of the lessor; and
- periods covered by ordinary renewal options preceding the date in which a bargain purchase option can be exercised.

Judgment is required in evaluating whether a penalty is substantive enough to reasonably assure renewal by the lessee. Considerations include whether the lessee will pay cash (or transfer another asset or rights), incur a liability, perform services, or suffer an "economic detriment" upon failure to renew. Factors to consider when assessing whether a lessee will suffer an economic detriment include the unique nature or location of the property, the availability of replacement property, the importance of the property to the lessee's business, and the likely impairment in value of leasehold improvements upon termination of the lease.