



**Urban Fulfillment Services, LLC**

Financial Statements

December 31, 2018



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# Urban Fulfillment Services, LLC

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## Independent Auditors' Report

To the Members of  
Urban Fulfillment Services, LLC

We have audited the accompanying financial statements of Urban Fulfillment Services, LLC, which comprise the balance sheet as of December 31, 2018, and the related statements of operations, changes in members' equity, and cash flows for the year ended December 31, 2018, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Fulfillment Services, LLC as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Pittsburgh, Pennsylvania  
May 15, 2019

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## Urban Fulfillment Services, LLC

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Balance Sheet  
December 31, 2018

### Assets

#### Current Assets

Cash and cash equivalents	\$ 851,967
Accounts receivable, net	1,692,983
Related party receivable	123,952
Prepaid expenses	<u>432,824</u>

Total current assets 3,101,726

#### Non-Current Assets

Property and equipment, net	622,976
Security deposits	195,705
Licenses	<u>450,000</u>

Total assets \$ 4,370,407

### Liabilities and Members' Equity

#### Current Liabilities

Loans payable, related party	\$ 1,164,969
Due to related party	494,997
Accounts payable, accrued expenses and other current liabilities	<u>850,155</u>

Total current liabilities 2,510,121

Total liabilities 2,510,121

#### Members' Equity

1,860,286

Total liabilities and members' equity \$ 4,370,407

See notes to financial statements

## Urban Fulfillment Services, LLC

### Statement of Operations

Year Ended December 31, 2018

<b>Revenue</b>	\$ 22,697,829
<b>Cost of Revenue</b>	<u>19,598,818</u>
Gross profit	<u>3,099,011</u>
<b>Operating Expenses</b>	
Rent	3,421,655
Utilities	899,815
Employee benefits and taxes	1,900,866
Depreciation	393,234
Professional fees	816,526
Bad debt expense	523,688
Other	<u>547,414</u>
Total operating expenses	<u>8,503,198</u>
Loss from operations	<u>(5,404,187)</u>
<b>Other Income (Expense)</b>	
Miscellaneous related party income, net	6,499
Interest expense	<u>(100,756)</u>
Total other expense	<u>(94,257)</u>
Net loss	<u><u>\$ (5,498,444)</u></u>

See notes to financial statements

**Urban Fulfillment Services, LLC**

Statement of Changes in Members' Equity

Year Ended December 31, 2018

<b>Members' Equity, December 31, 2017</b>	<b>\$ 2,858,730</b>
Conversion of related party debt to equity	4,500,000
Net loss	<u>(5,498,444)</u>
<b>Members' Equity, December 31, 2018</b>	<b><u>\$ 1,860,286</u></b>

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See notes to financial statements

## Urban Fulfillment Services, LLC

### Statement of Cash Flows

Year Ended December 31, 2018

#### Cash Flows from Operating Activities

Net loss	\$ (5,498,444)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	393,234
Bad debt expense	523,688
Decrease (increase) in assets	
Accounts receivable	959,606
Related party receivable	(123,952)
Prepaid expenses	118,760
Increase (decrease) in liabilities	
Due to related party	306,447
Accounts payable, accrued expenses and other current liabilities	<u>(1,774,759)</u>
Net cash used in operating activities	<u>(5,095,420)</u>

#### Cash Flows from Investing Activities

Purchases of property and equipment	<u>(126,051)</u>
Net cash used in investing activities	<u>(126,051)</u>

#### Cash Flows from Financing Activities

Net increase in loans payable, related party	<u>1,450,000</u>
Net cash provided by financing activities	<u>1,450,000</u>
Net decrease in cash and cash equivalents	(3,771,471)

#### Cash and Cash Equivalents, Beginning

4,623,438

#### Cash and Cash Equivalents, Ending

\$ 851,967

#### Supplemental Disclosure of Non-Cash Investing and Financing Activities

Non-cash member conversion of related party loans payable into equity	<u>\$ 4,500,000</u>
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#### Supplemental Disclosure of Cash Flow Information

Cash paid for interest	<u>\$ 62,616</u>
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See notes to financial statements

# Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2018

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

Urban Fulfillment Services, LLC (the "Company") is a Delaware limited liability company and is owned by HCL America Inc. ("HCL"). The Company is licensed by federal and state jurisdictions to act in the capacity of an originator and servicer of mortgages. During 2018, no loans were originated or serviced by the Company. The Company's primary operations consisted of providing outsourced services to businesses in the mortgage industry. In 2018, the Company provided third party processing, underwriting, and closing services for conventional and Home Equity Line of Credit mortgage loans originated and funded by the Company's clients.

As evidenced by the accompanying financial statements, the Company incurred a net loss of \$5,498,444 for the year ended December 31, 2018 and also had a net cash outflow from operations during the same period. Furthermore, the Company has current obligations, including lease obligations, which are in excess of current assets available to fund such obligations at December 31, 2018.

The Company's historical operating results indicate that without additional financial support over the next year, the Company would not have sufficient liquidity to meet its current and future obligations. Management believes that the actions discussed below are probable of occurring and mitigating the substantial doubt raised by its historical operating results and satisfying its estimated liquidity needs twelve months from the issuance of the financial statements.

As noted above, the Company is owned by HCL. When HCL acquired the Company in 2017, the acquisition was viewed as an investment by HCL. Furthermore, the only debt carried by the Company at December 31, 2018 relates to its loan payable with HCL. Management believes that HCL has the intent and ability to fully support the Company through at least one year and a day beyond the date these financial statements were available to be issued.

### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

### Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

### Accounts Receivable

The Company utilizes the reserve method for charging off uncollectible trade receivables. Past due balances over 90 days and other higher risk accounts are reviewed individually for collectability. Management considers the following factors when determining the collectability of specific accounts: creditworthiness, past transaction history, current economic industry trends, and changes in payment terms. Receivables are written off after all avenues of collection have been exhausted. At December 31, 2018, there is no allowance for doubtful accounts recorded as management fully expects to collect the total outstanding receivable balance.

In certain of the Company's contracts, the Company invoices in accordance with contracted terms subsequent to revenue being earned which results in unbilled accounts receivable. Unbilled accounts receivable represent revenue earned in excess of amounts invoiced pursuant to contract provisions. At December 31, 2018, unbilled accounts receivable represents \$300,600 and is classified as accounts receivable on the balance sheet.

## Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2018

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### Property and Equipment

Property and equipment are recorded at cost. Repair and maintenance costs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives, generally from three to five years, of the related assets. Gain or loss on the sale or disposal of assets is included in income (loss) in the year of sale or disposal.

### Carrying Value of Long-Lived Assets

In accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 360, *Accounting for Impairment or Disposal of Long Lived Assets*, the Company evaluates the carrying value of long-lived assets for potential impairment on an ongoing basis. If factors indicate that long-lived assets could be impaired, the Company will use an estimate of the related undiscounted future cash flows over the remaining life of the long-lived assets in measuring whether the long-lived asset is recoverable. If such an analysis indicates that impairment has occurred, the Company will adjust the book value of the long-lived asset to fair value.

### Licenses

During 2012, the Company, at that time a non-operating entity, changed ownership, and the acquiring entity obtained the Company for its mortgage origination and mortgage broker licenses, as well as certain other mortgage, servicer, and collections licenses, in various states. The amount assigned to these licenses of \$450,000 was the full purchase price of the business. The Company accounts for this asset as an indefinite lived intangible asset and does not amortize the value of the asset. The Company intends to maintain the value of the asset at the acquisition price until there is an indicator of (1) impairment and/or (2) the asset has a finite life. Management reviews the asset for impairment annually or more frequently if indicators of impairment exist (a triggering event). There was no impairment recognized for the year ended December 31, 2018.

### Revenue Recognition

The Company recognizes revenues in accordance with FASB ASC Topic 605, *Revenue Recognition*. Under FASB ASC Topic 605, revenue is recognized when persuasive evidence of an arrangement exists, the related services are provided/rendered, the price is fixed and determinable and collectability is reasonably assured. The majority of the Company's revenues are generated from providing fixed-fee services.

In fixed-fee billing arrangements, the Company agrees to a pre-established fee for a predetermined set of services to be rendered. Fees are established based on estimates of the costs to render each item of service to be provided. Revenues are recognized under fixed-fee billing arrangements using a proportional performance approach, when material, which is based on estimates of work, completed to-date versus the total services to be rendered under the service agreement.

The Company has arrangements with customers in which it provides multiple elements of services under one service agreement. Revenues under these types of arrangements are allocated to each element based on the element's estimated relative fair value in accordance with FASB ASC Topic 605 and recognized pursuant to the criteria described above.

Differences between the timing of billings and the recognition of revenue (if any) on fixed-fee billing arrangements are recognized as deferred revenue. At December 31, 2018, \$460 of deferred revenue was recorded within accrued expenses and other current liabilities in the accompanying balance sheet.



## Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2018

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### Income Taxes

The Company is a disregarded entity for income tax purposes and is included in the corporation income tax returns of HCL America, Inc. The Company may be subject to state or local taxes in certain jurisdictions in which it operates.

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to report information regarding its exposure to various tax positions taken by the Company. The Company has determined whether any tax positions have met the recognition threshold and have measured the Company's exposure to those tax positions. Management believes that the Company has adequately addressed all relevant tax positions and that there are no uncertain tax positions that are required to be reported as a liability.

### Shipping and Handling Costs

The Company classifies costs associated with shipping and handling of customer loan packages as a cost of revenue.

### Advertising

Advertising costs are expensed as incurred. The Company incurred no advertising expenses for the year ended December 31, 2018.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

### New Accounting Pronouncements

During May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is assessing the effect that ASU Nos. 2014-09 and 2015-14 will have on its results of operations, financial position and cash flows.



## Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2018

During February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company is assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

### Subsequent Events

The Company has evaluated all events through May 15, 2019, which is the date the financial statements were available to be issued, and has determined there are no subsequent events that require disclosure or recognition.

### 2. Property and Equipment

Property and equipment consist of the following at December 31, 2018:

Furniture and fixtures	\$ 232,125
Equipment	283,665
Computers	386,458
Leasehold improvements	<u>305,901</u>
	1,208,149
Less accumulated depreciation and amortization	<u>585,173</u>
Property and equipment, net	<u>\$ 622,976</u>

Depreciation and amortization expenses amounted to \$393,234 for the year ended December 31, 2018.

### 3. Loans Payable, Related Party

Loans payable, related party consist of the following at December 31, 2018:

Loan payable to member related to acquisition expenses paid on the Company's behalf. This loan bears simple interest of six-month LIBOR plus 1.00% (3.87% at December 31, 2018) and is due on demand.	1,014,969
Loan payable to member, with a simple interest rate of six-month LIBOR plus 1.00% (3.87% at December 31, 2018). This loan is due on demand.	<u>150,000</u>
Loans payable, related party	<u>\$ 1,164,969</u>

As of December 31, 2018, the Company reached an agreement with its member to convert \$4,500,000 of the loans payable balance into equity. At the date of conversion, the carrying value of loans payable to member was \$4,650,000, and accrued interest totaled \$64,767.



## Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2018

### 4. Operating Leases

The Company leases office space under various non-cancelable operating leases. These leases commenced at various times and expire at various times through 2025. Rent expense for office space leases totaled \$3,421,655 for the year ended December 31, 2018.

Several of these operating lease agreements contain provisions for future rent increases, rent free periods, or periods in which rent payments are reduced or abated. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent obligation, which is included in accounts payable, accrued expenses and other current liabilities in the accompanying balance sheet.

During 2018, the Company elected to early terminate one of the lease agreements originally scheduled to terminate in September 2025. Per the terms of the agreement, this resulted in a \$426,406 one-time early termination fee charged to rent expense during the year ended December 31, 2018.

Future minimum lease payments for all operating leases as of December 31, 2018 are as follows:

Years ending December 31:		
2019	\$	2,614,675
2020		2,394,172
2021		1,266,001
2022		1,303,981
2023		1,343,100
Thereafter		<u>452,089</u>
Total	\$	<u>9,374,018</u>

### 5. Retirement Plan

The Company offers a 401(k) defined contribution plan to eligible employees. The plan calls for matching contributions of employee contributions up to 100 percent of the first 3 percent, plus 50 percent of the next 2 percent of compensation. Total employer contributions to this plan made by the Company were \$467,659 for the year ended December 31, 2018.

### 6. Concentrations

One customer accounted for approximately 83 percent of total revenue for the year ended December 31, 2018. Amounts due from this customer were approximately \$1,000,000 at December 31, 2018.

Cash deposits exceeded federal deposit insurance limits at various times throughout the year and are not otherwise collateralized. The Company has not experienced any losses in such accounts. Management has assessed the credit risk related to these deposits as minimal based on the strong credit rating of the financial institutions.

## Urban Fulfillment Services, LLC

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Notes to Financial Statements  
December 31, 2018

### 7. Contingencies

In the normal course of business, the Company may encounter contingencies related to its customers, vendors, and legal proceedings. Such matters are typically subject to various uncertainties. Liabilities are recorded when management is aware of the existence of such matters and, in its opinion, there is a probability of an unfavorable outcome and the amount of probable loss can be reasonably estimated.

### 8. Related Party Transactions

From time to time, HCL pays invoices on behalf of the Company. As a result, the Company has a payable to HCL related to these intercompany transactions in the amount of \$359,117 at December 31, 2018.

During 2018, the Company entered into an agreement with HCL in which another HCL-owned entity utilized unused office space at the Company for a project. This agreement resulted in \$6,499 of other income for the Company. As of December 31, 2018, the Company is due \$123,952 from the related party and has a payable to the related party for this project of \$135,880 as a result of this agreement.

