

**HCL Lending Solutions, LLC  
(f/k/a Urban Fulfillment Services, LLC)**

Financial Statements

December 31, 2022 and 2021

# HCL Lending Solutions, LLC

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## **Independent Auditors' Report**

To the Member of  
HCL Lending Solutions, LLC

### **Opinion**

We have audited the financial statements of HCL Lending Solutions, LLC (f/k/a Urban Fulfillment Services, LLC) (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in member's equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

*Baker Tilly US, LLP*

Pittsburgh, Pennsylvania  
March 31, 2023



# HCL Lending Solutions, LLC

## Balance Sheets

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,554,761	\$ 3,291,874
Accounts receivable, net	2,572,514	6,862,146
Related-party receivable	175,640	650,718
Prepaid expenses and other current assets	418,548	420,051
Total current assets	10,721,463	11,224,789
<b>Noncurrent Assets</b>		
Property and equipment, net	160,051	216,480
Security deposits	289,405	291,806
Right-of-use lease assets	5,993,540	7,874,449
Licenses	450,000	450,000
Total assets	<u>\$ 17,614,459</u>	<u>\$ 20,057,524</u>
<b>Liabilities and Member's Equity</b>		
<b>Current Liabilities</b>		
Accounts payable, accrued expenses and other current liabilities	\$ 1,984,669	\$ 3,427,118
Advance, related party	2,533,387	-
Due to related party	1,199,371	637,840
Operating lease obligations	2,317,164	1,532,743
Deferred revenue	147,359	405,769
Total current liabilities	8,181,950	6,003,470
<b>Noncurrent Liabilities</b>		
Operating lease obligations, net of current portion	5,389,581	7,706,657
Total liabilities	13,571,531	13,710,127
<b>Member's Equity</b>	4,042,928	6,347,397
Total liabilities and member's equity	<u>\$ 17,614,459</u>	<u>\$ 20,057,524</u>

See notes to financial statements



## HCL Lending Solutions, LLC

### Statements of Operations

Years Ended December 31, 2022 and 2021

	<b>2022</b>	<b>2021</b>
<b>Revenue</b>	<u>\$ 29,606,545</u>	<u>\$ 39,480,855</u>
<b>Operating Expenses</b>		
Salaries	19,715,220	25,882,108
Employee benefits and taxes	5,238,445	6,169,061
Rent	2,071,959	2,220,489
Utilities	330,923	696,206
Professional fees	501,890	438,822
Depreciation	80,027	99,401
Bad debt expense	943,995	-
Other	<u>337,340</u>	<u>670,671</u>
Total operating expenses	<u>29,219,799</u>	<u>36,176,758</u>
Income from operations	<u>386,746</u>	<u>3,304,097</u>
<b>Other Income</b>		
Miscellaneous related-party income, net	252,766	615,837
Other income	<u>56,019</u>	<u>-</u>
Total other income	<u>308,785</u>	<u>615,837</u>
Net income	<u><u>\$ 695,531</u></u>	<u><u>\$ 3,919,934</u></u>

See notes to financial statements



## HCL Lending Solutions, LLC

Statements of Changes in Member's Equity  
Years Ended December 31, 2022 and 2021

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<b>Member's Equity, December 31, 2020</b>	\$ 8,927,463
Distribution to sole member	(6,500,000)
Net income	<u>3,919,934</u>
<b>Member's Equity, December 31, 2021</b>	6,347,397
Distribution to sole member	(3,000,000)
Net income	<u>695,531</u>
<b>Member's Equity, December 31, 2022</b>	<u><u>\$ 4,042,928</u></u>

See notes to financial statements



## HCL Lending Solutions, LLC

### Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 695,531	\$ 3,919,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	80,027	99,401
Bad debt expense	943,995	-
Changes in assets and liabilities:		
Accounts receivable	3,345,637	(716,154)
Related-party receivable	475,078	(235,449)
Prepaid expenses and other current assets	1,503	(140,193)
Security deposits	2,401	202,340
Due to related party	561,531	143,980
Operating lease obligations	348,254	924,366
Deferred revenue	(258,410)	(273,107)
Accounts payable, accrued expenses and other current liabilities	(1,442,449)	(76,051)
Net cash provided by operating activities	4,753,098	3,849,067
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(23,598)	(102,741)
<b>Cash Flows From Financing Activities</b>		
Advance, related party	2,533,387	-
Distribution to sole member	(3,000,000)	(6,500,000)
Net cash used in financing activities	(466,613)	(6,500,000)
Net increase (decrease) in cash and cash equivalents	4,262,887	(2,753,674)
<b>Cash and Cash Equivalents, Beginning</b>	3,291,874	6,045,548
<b>Cash and Cash Equivalents, Ending</b>	\$ 7,554,761	\$ 3,291,874
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ -	\$ -
Decrease to right-of-use lease assets due to lease modification	\$ -	\$ 1,101,582
Decrease to operating lease obligations due to lease modification	\$ -	\$ 1,101,582

See notes to financial statements





# HCL Lending Solutions, LLC

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Notes to Financial Statements  
December 31, 2022 and 2021

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

### Nature of Operations

HCL Lending Solutions, LLC (the Company), formerly known as Urban Fulfillment Services, LLC, 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 a service provider for mortgages. During 2022 and 2021, 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 2022 and 2021, 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.

On January 19, 2022, the Company legally changed its name from Urban Fulfillment Services, LLC to HCL Lending Solutions, LLC.

### 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. The allowance for doubtful accounts was approximately \$950,000 and \$0 as of December 31, 2022 and 2021, respectively. The allowance for doubtful accounts in 2022 is primarily related to a specific customer that declared bankruptcy in 2022, resulting in bad debt expense of approximately \$950,000 in 2022. The allowance for doubtful accounts represents 100% of the outstanding receivables for this customer as of December 31, 2022.

### 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.

### Reclassification

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the current year presentation.

#### Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) lease assets and operating lease obligations on the Company's balance sheets.

ROU lease assets represent the Company's right to use an underlying asset for the lease term and lease obligations represent the Company's obligation to make lease payments arising from the lease. ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The lease asset also reflects any prepaid rent, initial direct costs incurred and lease incentives received. The Company's lease terms may include options to extend or terminate the lease. These options are included in the Company's calculations when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. (See Note 3).

#### Carrying Value of Long-Lived Assets

In accordance with the provisions of the 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 asset 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 nonoperating 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 years ended December 31, 2022 and 2021.

#### Revenue From Contracts With Customers

The majority of the Company's revenue is 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 or performance obligations to be rendered. Fees are established based on estimates of the costs to render each item of service to be provided. All revenue is recognized when the Company satisfies its performance obligation(s) under a contract (either implicit or explicit) by transferring the promised service to its customer. A performance obligation is a promise in a contract to transfer a distinct product or service to a customer.

The Company's performance obligations are generally satisfied over time. Revenue is recognized under fixed-fee billing arrangements using an input measure based upon 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. A contract's transaction price is allocated to each distinct performance obligations.



# HCL Lending Solutions, LLC

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## Notes to Financial Statements

December 31, 2022 and 2021

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, 2022 and 2021, unbilled accounts receivable represented approximately \$1,360,000 and \$3,091,000, respectively, and is classified as accounts receivable on the balance sheets.

Differences between the timing of billings and the recognition of revenue (if any) on fixed-fee billing arrangements are recognized as deferred revenue in the accompanying balance sheets. At December 31, 2022 and 2021, approximately \$147,000 and \$406,000, respectively, of contract liabilities were recorded in the accompanying balance sheets.

The Company has elected to expense all contract costs as incurred as the amortization period would have been one year or less. These costs are recorded within salaries and employee benefits and taxes on the accompanying statements of operations.

### Income Taxes

The Company is a disregarded entity for income tax purposes and is included in the corporation income tax returns of HCL. 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 accounting principles generally accepted in the United States of America 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.

### Advertising

Advertising costs are expensed as incurred. The Company incurred no advertising expenses for the years ended December 31, 2022 and 2021.

### 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.

### Subsequent Events

Subsequent events were evaluated through March 31, 2023, 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.



## HCL Lending Solutions, LLC

Notes to Financial Statements

December 31, 2022 and 2021

### 2. Property and Equipment

Property and equipment consist of the following at December 31, 2022 and 2021:

	2022	2021
Furniture and fixtures	\$ 232,125	\$ 231,080
Equipment	312,212	332,147
Computers	576,421	577,466
Leasehold improvements	332,148	288,615
	1,452,906	1,429,308
Less accumulated depreciation	1,292,855	1,212,828
Property and equipment, net	\$ 160,051	\$ 216,480

Depreciation expense was approximately \$80,000 and \$99,000 for the years ended December 31, 2022 and 2021, respectively.

### 3. Lease Commitments

The Company leases office space under non-cancelable operating leases expiring through April 2026. For all operating lease arrangements, the Company presents at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the provisions of ASC 842, the Company has elected to utilize the incremental borrowing rate for leases where the implicit rate is not readily determinable.

The Company has elected, as a practical expedient, not to apply lease recognition requirements to short-term lease arrangements, generally those with a lease term of less than 12 months, for all classes of underlying assets. In determination of the lease term, the Company considers the likelihood of lease renewal options and lease termination provisions.

The lease asset also reflects any prepaid rent, initial direct costs incurred and lease incentives received. The Company's lease terms include optional extension periods when it is reasonably certain that those options will be exercised. Leases with an initial expected term of 12 months or less are not recorded in the balance sheets and the related lease expense is recognized on a straight-line basis over the lease term.

The Company records operating lease expense using the straight-line method within costs and expenses. For operating leases with step rent provisions whereby the rental payments increase over the life of the lease, and for leases with rent-free periods, the Company recognizes expense and income on a straight-line basis over the expected lease term, based on the total minimum lease payments to be made or lease receipts expected to be received.

Operating lease assets are reviewed for impairment based on an ongoing review of circumstances that indicate the assets may no longer be recoverable, such as properties that are no longer being utilized in current operations, and other factors. The Company calculates operating lease impairments using a discount rate to calculate the present value of estimated subtenant rentals that could be reasonably obtained for the property.

Operating lease expense totaled approximately \$2,072,000 and \$2,220,000 for the years ended December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the weighted-average remaining lease term and discount rate for these operating leases were 2.83 years and 2.11% and 3.85 years and 2.13%, respectively.

## HCL Lending Solutions, LLC

Notes to Financial Statements

December 31, 2022 and 2021

Future payments on the Company's operating leases for the years ending December 31 are as follows:

2023	\$ 2,472,706
2024	2,538,307
2025	2,336,044
2026	<u>613,365</u>
Total lease payments	7,960,422
Less amounts representing interest	<u>253,677</u>
Total	<u>\$ 7,706,745</u>

#### 4. 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% of the first 3%, plus 50% of the next 2% of compensation. Total employer contributions to this plan made by the Company were approximately \$508,000 and \$500,000 for the years ended December 31, 2022 and 2021, respectively.

#### 5. Concentrations

One customer accounted for approximately 85% and 59% of total revenue for the years ended December 31, 2022 and 2021, respectively. Accounts receivable, including unbilled accounts receivable, due from this customer were approximately \$2,194,000 and \$5,343,000 at December 31, 2022 and 2021, respectively.

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.

#### 6. 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.

#### 7. 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 approximately \$1,199,000 and \$638,000 at December 31, 2022 and 2021, respectively.

During 2022, the Company received an advance from HCL of approximately \$2,500,000. The advance is expected to be repaid in 2023.



## HCL Lending Solutions, LLC

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Notes to Financial Statements  
December 31, 2022 and 2021

During 2019, the Company entered into an agreement with HCL in which the Company's employees sold products of HCL on their behalf. The Company is reimbursed for employees' hourly rate, plus an agreed-upon markup of the employees' base pay in order to compensate the Company for overhead and managing the project. For the years ended December 31, 2022 and 2021, this agreement resulted in approximately \$253,000 and \$616,000, respectively, of miscellaneous related-party income, net, for the Company. As of December 31, 2022 and 2021, the Company is due approximately \$176,000 and \$651,000, respectively, from the related party as a result of this agreement and these amounts are included within related-party receivable on the accompanying balance sheets. In May 2022, the agreement was terminated and the Company no longer participated in the project.

