

Urban Fulfillment Services, LLC

Financial Statements

December 31, 2020 and 2019

L. Ryan

Urban Fulfillment Services, LLC

Table of Contents

December 31, 2020 and 2019

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Member's Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6

L. P. R.

Independent Auditors' Report

To the Member of
Urban Fulfillment Services, LLC

We have audited the accompanying financial statements of Urban Fulfillment Services, LLC, which comprise the balance sheets as of December 31, 2020 and 2019, 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.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2020 and 2019, 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.

Baker Tilly US, LLP

Pittsburgh, Pennsylvania
June 9, 2021

L. R. Ram

Urban Fulfillment Services, LLC

Balance Sheets

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,045,548	\$ 1,352,974
Accounts receivable, net	6,145,992	6,749,084
Related party receivable	51,099	2,851,295
Right-of-use lease assets, current	2,129,815	1,668,291
Prepaid expenses	215,077	329,121
	<u>14,587,531</u>	<u>12,950,765</u>
Noncurrent Assets		
Property and equipment, net	213,140	325,145
Security deposits	494,136	162,935
Right-of-use lease assets, net of current portion	8,826,879	-
Licenses	450,000	450,000
	<u>9,984,155</u>	<u>938,080</u>
Total assets	<u>\$ 24,571,686</u>	<u>\$ 13,888,845</u>
Liabilities and Member's Equity		
Current Liabilities		
Loans payable, related party	\$ -	\$ 1,664,969
Due to related party	129,690	1,761,050
Operating lease obligations	1,401,165	1,753,043
Accounts payable, accrued expenses and other current liabilities	4,182,045	3,162,223
	<u>5,712,900</u>	<u>8,341,285</u>
Total current liabilities	5,712,900	8,341,285
Noncurrent Liabilities		
Operating lease obligations, net of current portion	9,931,323	-
	<u>9,931,323</u>	<u>-</u>
Total liabilities	15,644,223	8,341,285
Member's Equity		
	<u>8,927,463</u>	<u>5,547,560</u>
Total liabilities and member's equity	<u>\$ 24,571,686</u>	<u>\$ 13,888,845</u>

L. P. Ram

See notes to financial statements

Urban Fulfillment Services, LLC

Statements of Operations

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue	\$ 33,721,384	\$ 18,950,612
Cost of Revenue	<u>20,569,640</u>	<u>13,048,070</u>
Gross profit	<u>13,151,744</u>	<u>5,902,542</u>
Operating Expenses		
Rent	2,110,245	4,376,072
Utilities	593,730	693,819
Employee benefits and taxes	2,187,193	1,405,796
Depreciation	189,406	349,331
Professional fees	214,887	369,452
Bad debt expense	13,967	168,350
Other	<u>402,227</u>	<u>320,215</u>
Total operating expenses	<u>5,711,655</u>	<u>7,683,035</u>
Income (loss) from operations	<u>7,440,089</u>	<u>(1,780,493)</u>
Other Income (Expense)		
Miscellaneous related-party income, net	974,748	1,776,838
Other expense	(3,563)	(21,922)
Interest expense, related party	<u>(31,371)</u>	<u>(37,149)</u>
Total other income	<u>939,814</u>	<u>1,717,767</u>
Net income (loss)	<u>\$ 8,379,903</u>	<u>\$ (62,726)</u>

L. R. R.

See notes to financial statements

Urban Fulfillment Services, LLC

Statements of Changes in Member's Equity
Years Ended December 31, 2020 and 2019

Member's Equity, December 31, 2018	\$ 1,860,286
Distribution to sole member	500,000
Conversion of related party debt to equity	3,250,000
Net loss	<u>(62,726)</u>
Member's Equity, December 31, 2019	5,547,560
Distribution to sole member	(5,000,000)
Net income	<u>8,379,903</u>
Member's Equity, December 31, 2020	<u><u>\$ 8,927,463</u></u>

L. P. Ramo

See notes to financial statements

Urban Fulfillment Services, LLC

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Net income (loss)	\$ 8,379,903	\$ (62,726)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	189,406	349,331
Bad debt expense	13,967	168,350
(Increase) decrease in assets:		
Accounts receivable	589,125	(5,224,451)
Related-party receivable	2,800,196	(2,727,343)
Prepaid expenses and other assets	114,044	103,703
Security deposits	(331,201)	32,770
Increase (decrease) in liabilities:		
Due to related party	(1,631,360)	1,266,053
Operating lease obligations	291,042	84,752
Accounts payable, accrued expenses and other current liabilities	1,019,822	2,312,068
Net cash provided by (used) in operating activities	<u>11,434,944</u>	<u>(3,697,493)</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(77,401)</u>	<u>(51,500)</u>
Net cash used in investing activities	<u>(77,401)</u>	<u>(51,500)</u>
Cash Flows From Financing Activities		
Net (decrease) increase in loans payable, related party	(1,664,969)	3,750,000
Member contributions	-	500,000
Member distributions	<u>(5,000,000)</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(6,664,969)</u>	<u>4,250,000</u>
Net increase in cash and cash equivalents	4,692,574	501,007
Cash and Cash Equivalents, Beginning	<u>1,352,974</u>	<u>851,967</u>
Cash and Cash Equivalents, Ending	<u>\$ 6,045,548</u>	<u>\$ 1,352,974</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Noncash member conversion of related-party loans payable into equity	<u>\$ -</u>	<u>\$ 3,250,000</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 118,531</u>	<u>\$ -</u>
Right-of-use lease asset recognized	<u>\$ 8,159,231</u>	<u>\$ 4,031,626</u>
Operating lease obligations recognized	<u>\$ 8,159,231</u>	<u>\$ 4,216,418</u>

See notes to financial statements

L. R. R.

Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2020 and 2019

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 a service provider for mortgages. During 2020 and 2019, 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 2020 and 2019, 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.

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 \$13,967 and \$0 as of December 31, 2020 and 2019, respectively.

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.

Leases

Effective January 1, 2019, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which superseded Topic 840, *Leases*, under the optional transition method as permitted by ASU No. 2018-11. As allowed under the new accounting standard, the Company elected to apply practical expedients to carry forward the original lease determinations, lease classifications and accounting of initial direct costs for all asset classes at the time of adoption. The Company also elected to not separate lease components from non-lease components for asset categories and to exclude short-term leases from its balance sheet.

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 sheet.

L. A. Ram

Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2020 and 2019

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 ROU lease asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease 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 4.

Carrying Value of Long-Lived Assets

In accordance with the provisions of 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 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, 2020 and 2019.

Revenue From Contracts With Customers

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 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. Revenues are 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.

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, 2020 and 2019, unbilled accounts receivable represented approximately \$3,300,000, and \$2,000,000, respectively, and is classified as accounts receivable on the balance sheets.

Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2020 and 2019

Differences between the timing of billings and the recognition of revenue (if any) on fixed-fee billing arrangements are recognized as contract liabilities. At December 31, 2020 and 2019, approximately \$700,000 and \$500,000, respectively, of contract liabilities were recorded within accounts payable, accrued expenses and other current liabilities 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 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 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 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.

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 years ended December 31, 2020 and 2019.

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 June 9, 2021, 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.

In March 2021, the Company distributed \$4.0 million to the sole member.

L. R. Ramo

Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2020 and 2019

2. Property and Equipment

Property and equipment consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 235,535	\$ 240,874
Equipment	333,310	283,665
Computers	413,040	380,989
Leasehold improvements	354,122	354,122
	<u>1,336,007</u>	<u>1,259,650</u>
Less accumulated depreciation	<u>1,122,867</u>	<u>934,505</u>
Property and equipment, net	<u>\$ 213,140</u>	<u>\$ 325,145</u>

Depreciation expense amounted to \$189,406 and \$349,331 for the years ended December 31, 2020 and 2019, respectively.

3. Loans Payable, Related Party

Loans payable, related party consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Loan payable to member, with a simple interest rate of six-month LIBOR plus 1.00% (2.91% at December 31, 2019). This loan is due on demand.	\$ -	\$ 1,664,969

During 2019, the Company reached two total agreements with its member to convert a total of \$3,250,000 of the loans payable balance into equity.

4. Lease Commitments

The Company leases office space under two separate operating leases. Total lease costs under operating leases were approximately \$2,110,000 and \$2,506,000 for the years ended December 31, 2020 and 2019, respectively, and included within rent expense on the statements of operations. At December 31, 2020 and 2019, the weighted-average remaining lease term and discount rate for these operating leases were 5.14 years and 2.12 percent and 0.72 years and 3.71 percent, respectively.

During 2019, the Company elected to early terminate one of the lease agreements originally scheduled to terminate in April 2024 effective June 30, 2020. Per the terms of the agreement, this resulted in a \$1,869,660 one-time early termination fee charged to rent expense during the year ended December 31, 2019.

L. R. R.

Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2020 and 2019

The expected maturity of the Company's operating leases as of December 31, 2020 is as follows:

2021	\$	2,346,579
2022		2,408,811
2023		2,472,706
2024		2,538,307
2025		2,336,044
Thereafter		<u>1,533,413</u>
Total lease payments		13,635,860
Less amounts representing interest		<u>(2,303,372)</u>
Total	\$	<u><u>11,332,488</u></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 approximately \$379,000 and \$219,000 for the years ended December 31, 2020 and 2019, respectively.

6. Concentrations

One customer accounted for approximately 63 and 58 percent of total revenue for the years ended December 31, 2020 and 2019, respectively. Accounts receivable due from this customer were approximately \$3,479,000 and \$2,315,000 at December 31, 2020 and 2019, 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.

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 \$129,690 and \$1,761,050 at December 31, 2020 and 2019, respectively.

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 was 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, 2020 and 2019, this agreement resulted in \$974,748 and \$1,776,838, respectively, of other income, net, for the Company. As of December 31, 2020 and 2019, the Company is due approximately \$51,000 and \$2,787,000, 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.