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Urban Fulfillment Services, LLC

Financial Statements

December 31, 2019

Table of Contents
December 31, 2019

	Page
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Operations	4
Statement of Changes in Members' Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7

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, 2019 and the related statements of operations, changes in members' equity and cash flows for the year ended December 31, 2019, 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, 2019 and the results of its operations and its cash flows for the year ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
April 14, 2020

Urban Fulfillment Services, LLC

Balance Sheet
December 31, 2019

Assets	
Current Assets	
Cash and cash equivalents	$ 1,352,974
Accounts receivable, net	6,749,084
Related party receivable	2,851,295
Right-of-use lease assets	1,668,291
Prepaid expenses	329,121
Total current assets	12,950,765
Noncurrent Assets	
Property and equipment, net	325,145
Security deposits	162,935
Licenses	450,000
Total assets	$ 13,888,845
Liabilities and Members' Equity	
Current Liabilities	
Loans payable, related party	$ 1,664,969
Due to related party	1,761,050
Operating lease obligations	1,753,043
Accounts payable, accrued expenses and other current liabilities	3,162,223
Total current liabilities	8,341,285
Members' Equity	5,547,560
Total liabilities and members' equity	$ 13,888,845

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Urban Fulfillment Services, LLC

Statement of Operations
Year Ended December 31, 2019

Revenue	$ 18,950,612
Cost of Revenue	13,048,070
Gross profit	5,902,542
Operating Expenses	
Rent	4,376,072
Utilities	693,819
Employee benefits and taxes	1,405,796
Depreciation	349,331
Professional fees	369,452
Bad debt expense	168,350
Other	320,215
Total operating expenses	7,683,035
Loss from operations	(1,780,493)
Other Income (Expense)	
Miscellaneous related party income, net	1,776,838
Other expense	(21,922)
Interest expense, related party	(37,149)
Total other income	1,717,767
Net loss	$ (62,726)

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See notes to financial statements

Urban Fulfillment Services, LLC

Statement of Changes in Members' Equity
Year Ended December 31, 2019

Members' Equity, December 31, 2018	$ 1,860,286
Capital contribution	500,000
Conversion of related party debt to equity	3,250,000
Net loss	(62,726)
Members' Equity, December 31, 2019	$ 5,547,560

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Urban Fulfillment Services, LLC

Statement of Cash Flows
Year Ended December 31, 2019

Cash Flows From Operating Activities	
Net loss	$ (62,726)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	349,331
Bad debt expense	168,350
(Increase) decrease in assets:	
Accounts receivable	(5,224,451)
Related party receivable	(2,727,343)
Prepaid expenses and other assets	103,703
Amortization of right-of-use lease assets	(1,668,291)
Security deposits	32,770
Increase (decrease) in liabilities:	
Due to related party	1,266,053
Operating lease obligations	1,753,043
Accounts payable, accrued expenses and other current liabilities	2,312,068
Net cash used in operating activities	(3,697,493)
Cash Flows From Investing Activities	
Purchases of property and equipment	(51,500)
Net cash used in investing activities	(51,500)
Cash Flows From Financing Activities	
Net increase in loans payable, related party	3,750,000
Member contributions	500,000
Net cash provided by financing activities	4,250,000
Net increase in cash and cash equivalents	501,007
Cash and Cash Equivalents, Beginning	851,967
Cash and Cash Equivalents, Ending	$ 1,352,974
Supplemental Disclosure of Noncash Investing and Financing Activities	
Noncash member conversion of related party loans payable into equity	$ 3,250,000
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	$ -
Right-of-use lease asset recognized	$ 4,031,626
Operating lease obligations recognized	$ 4,216,418

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See notes to financial statements

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 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 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.

As evidenced by the accompanying financial statements, the Company incurred a net loss of $62,726 for the year ended December 31, 2019 and also had a net cash outflow from operations during the same period.

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, 2019 relates to its loan payable with HCL. 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, 2019, there is no allowance for doubtful accounts recorded as management fully expects to collect the total outstanding receivable balance.

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.

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Leases

Effective January 1, 2019, the Company adopted 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.

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.

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 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 year ended December 31, 2019.

Revenue from Contracts with Customers

Effective January 1, 2019, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and related amendments, which creates a single source of revenue guidance for all companies in all industries and is more principles-based than previous revenue guidance. The Company adopted the standard using the modified retrospective approach. The adoption of this standard did not result in significant changes to the Company's accounting policies, business processes, systems or controls, or have a material impact on its balance sheet or statement of operations.

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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, 2019, unbilled accounts receivable represents $2,011,730 and is classified as accounts receivable on the balance sheet.

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, 2019, $464,960 of contract liabilities were recorded within accounts payable, accrued expenses and other current liabilities in the accompanying balance sheet.

The Company has elected to expense all contract costs as incurred as the amortization period would have been on year or less. These costs are recorded within employee benefits and taxes on the accompanying statement 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 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, 2019.

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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 April 14, 2020, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a global pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. As a result of COVID-19, estimates and assumptions outlined in Note 1 may have been impacted as a result of economic uncertainties. As of April 14, 2020, the Company is unable to quantify the potential effects of this pandemic on future financial statements. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

2. Property and Equipment

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

Furniture and fixtures	240,874
Equipment	283,665
Computers	380,989
Leasehold improvements	354,122
	1,259,650
Less accumulated depreciation	934,505
Property and equipment, net	$ 325,145

Depreciation expense amounted to $349,331 for the year ended December 31, 2019.

3. Loans Payable, Related Party

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

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.

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4. Lease Commitments

The Company leases office space under two separate operating leases. As a result of adoption of ASC 842, *Leases*, the Company recognized right-of-use lease assets and operating lease obligations of $4,031,626 and $4,216,418, respectively, at January 1, 2019. Total lease costs under operating leases was approximately $2,506,000 for the year ended December 31, 2019 and included within rent expense on the statement of operations. At December 31, 2019, the weighted-average remaining lease term and discount rate for these operating leases was 0.72 years and 3.71%, 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.

The Company's operating lease obligations at December 31, 2019 of $1,753,043 are scheduled to mature during 2020.

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 $219,304 for the year ended December 31, 2019.

6. Concentrations

One customer accounted for approximately 58 percent of total revenue for the year ended December 31, 2019. Amounts due from this customer were approximately $2,315,000 at December 31, 2019.

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 $1,761,050 at December 31, 2019.

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. This agreement resulted in $1,776,838 of other income, net, for the Company. As of December 31, 2019, the Company is due approximately $2,787,000 from the related party as a result of this agreement and included within related party receivable on the accompanying balance sheet.

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