

Urban Fulfillment Services, LLC

Financial Statements

Period from August 24, 2017 through December 31, 2017



BAKER TILLY

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Urban Fulfillment Services, LLC

Table of Contents

December 31, 2017

	<u>Page</u>
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

Member
Urban Fulfillment Services, LLC

We have audited the accompanying financial statements of Urban Fulfillment Services, LLC (the "Company"), which comprise the balance sheet as of December 31, 2017, and the related statements of operations, changes in members' equity, and cash flows for the period from acquisition (August 24, 2017) to December 31, 2017, 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.

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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, 2017, and the results of its operations and its cash flows for the period from August 24, 2017 to December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
May 16, 2018

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Urban Fulfillment Services, LLC**Balance Sheet**

December 31, 2017

Assets**Current Assets**

Cash and cash equivalents	\$ 4,623,438
Accounts receivable, trade	3,176,277
Prepaid expenses	<u>551,584</u>

Total current assets 8,351,299

Non-Current Assets

Property and equipment, net	890,158
Security deposits	195,705
Licenses	<u>450,000</u>

Total assets \$ 9,887,162

Liabilities and Members' Equity**Current Liabilities**

Loans payable, related party	\$ 3,200,000
Due to related party	1,203,519
Accounts payable, accrued expenses and other current liabilities	<u>2,624,913</u>

Total current liabilities 7,028,432

Total liabilities 7,028,432

Members' Equity

2,858,730

Total liabilities and members' equity \$ 9,887,162

See notes to financial statements

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Urban Fulfillment Services, LLC**Statement of Operations**

Period from August 24, 2017 through December 31, 2017

Revenue	\$ 10,888,395
Cost of Revenue	<u>8,322,758</u>
Gross profit	<u>2,565,637</u>
Operating Expenses	
Rent	1,087,841
Utilities	764,776
Employee benefits and taxes	745,676
Depreciation	191,940
Professional fees	106,700
Other	<u>130,080</u>
Total operating expenses	3,027,013
Loss from operations	<u>(461,376)</u>
Other Expense	
Interest expense	26,627
Loss on disposal of equipment	<u>230,529</u>
Total other expense	<u>257,156</u>
Net loss	<u><u>\$ (718,532)</u></u>

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See notes to financial statements

Urban Fulfillment Services, LLC

Statement of Changes in Members' Equity

Period from August 24, 2017 through December 31, 2017

Members' Equity, August 24, 2017	\$ 777,262
Conversion of related party debt to equity	2,800,000
Net loss :	<u>(718,532)</u>
Members' Equity, December 31, 2017	<u>\$ 2,858,730</u>

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See notes to financial statements

Urban Fulfillment Services, LLC**Statement of Cash Flows**

Period from August 24, 2017 through December 31, 2017

Cash Flows from Operating Activities

Net loss	\$ (718,532)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	191,940
Loss on disposal of equipment	230,529
Increase in assets	
Accounts receivable, trade	(2,031,518)
Prepaid expenses	(335,144)
Security deposits	(195,705)
Increase in liabilities	
Due to related party	1,203,519
Accounts payable, accrued expenses and other current liabilities	278,349
Net cash used in operating activities	<u>(1,376,562)</u>

Cash Flows from Financing Activities

Proceeds from loans payable, related party	<u>6,000,000</u>
Net cash provided by financing activities	<u>6,000,000</u>
Net increase in cash and cash equivalents	4,623,438

Cash and Cash Equivalents, Beginning-**Cash and Cash Equivalents, Ending**\$ 4,623,438**Supplemental Disclosure of Non-Cash Investing and Financing Activities**

Non-cash member conversion of related party debt into equity	<u><u>\$ 2,800,000</u></u>
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Supplemental Disclosure of Cash Flow Information

Cash paid for interest	<u><u>\$ -</u></u>
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See notes to financial statements

Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2017

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 Mortgage Holding, LLC (75.46%) and HCL America Inc. (24.54%) (collectively "HCL"). The accompanying financial statements reflect the Company's financial position and operations post-acquisition.

The Company is licensed by federal and state jurisdictions to act in the capacity of an originator and servicer of mortgages. During 2017, 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 2017, the Company provided the following outsourced mortgage services to its clients:

Mortgage Services. 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 April 6, 2017, HCL entered into a purchase agreement whereby they acquired certain business of the Company and all of the membership interests in the Company from Urban Settlement Services, LLC ("USS"). The acquisition date was determined to be end of business on August 23, 2017, which is the date that certain closing conditions were satisfied. HCL paid an amount in excess of the value of the identifiable net assets ("goodwill"). HCL elected not to use push down accounting; however, certain assets and liabilities were transferred to the Company pursuant to and in coordination with the acquisition in order to establish the appropriate opening balance sheet and initial capitalization. These assets and liabilities were transferred at the historical cost at date of acquisition.

The following table summarizes the allocation of assets and liabilities transferred by HCL at August 23, 2017 to the Company and the net equity funded:

Accounts receivable, trade	\$ 1,144,759
Prepaid expenses	216,440
Property and equipment, net	1,312,626
Intangible licensing asset	450,000
Total assets	3,123,825
Payroll and employee liabilities	1,362,948
Accrued expenses	29,856
Deferred revenue	953,760
Total liabilities	2,346,564
Equity	777,261
Total liabilities and equity	\$ 3,123,825

Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2017

As evidenced by the accompanying financial statements, the Company incurred a net loss of \$718,532 for the period from August 24, 2017 through December 31, 2017 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, 2017.

The Company's historical operating results indicate substantial doubt exists related to the Company's ability to continue as a going concern. 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, HCL acquired the Company during 2017. This acquisition was viewed as an investment by HCL. Furthermore, the only debt carried by the Company at December 31, 2017 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, 2017, accounts receivable are presented net of an allowance for doubtful accounts of \$52,338.

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, 2017, unbilled accounts receivable represents approximately \$2,179,000 and is classified as accounts receivable on the balance sheet.

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.

Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2017

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 period from August 24, 2017 through December 31, 2017.

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, 2017, approximately \$294,000 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, 2017

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 period ended December 31, 2017.

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 Company may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. 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.

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Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2017

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 16, 2018, 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, 2017:

Furniture and fixtures	\$ 232,125
Equipment	283,665
Computers	260,407
Leasehold improvements	<u>305,901</u>
	1,082,098
Less accumulated depreciation and amortization	<u>191,940</u>
Property and equipment, net	<u>\$ 890,158</u>

Depreciation and amortization expenses amounted to \$191,940 for the period from August 24, 2017 to December 31, 2017.

3. Loans Payable, Related Party

Loans payable, related party consist of the following at December 31, 2017:

Loan payable to member, with a simple interest rate of LIBOR plus 1.00% (2.77% at December 31, 2017). This loan is due on demand.	\$ 3,200,000
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During the period, the Company reached an agreement with its member to convert \$2,800,000 of the loans payable balance into equity. At the date of conversion, the carrying value of loans payable to member was \$6,000,000, and accrued interest totaled approximately \$6,000.

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Urban Fulfillment Services, LLC

Notes to Financial Statements

December 31, 2017

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 \$1,087,841 for the period from August 24, 2017 to December 31, 2017.

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 accrued expenses and other current liabilities in the accompanying balance sheet.

Future minimum lease payments for all operating leases as of December 31, 2017 are as follows:

Years ending December 31:	
2018	\$ 3,128,201
2019	3,125,308
2020	2,962,738
2021	1,849,947
2022	1,903,308
Thereafter	<u>3,530,879</u>
Total	<u>\$ 16,500,381</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% of the first 3%, plus 50% of the next 2% of compensation. Total employer contributions to this plan made by the Company were \$121,739 for the period from August 24, 2017 to December 31, 2017.

6. Concentrations

One customer accounted for approximately 81% of total revenue for the period ended December 31, 2017. Amounts due from this customer were approximately \$2,736,000 at December 31, 2017.

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.

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Urban Fulfillment Services, LLC

Notes to Financial Statements
December 31, 2017

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

Upon acquisition, HCL paid USS the amount of the Company's outstanding payroll liabilities as of August 24, 2017. Also, 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 \$1,203,519 at December 31, 2017.

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