

HCL Lending Solutions, LLC

Financial Statements

December 31, 2023 and 2022

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 (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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 28, 2024

HCL Lending Solutions, LLC

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,728,989	\$ 7,554,761
Accounts receivable, net	1,462,224	2,572,514
Prepaid expenses and other current assets	258,230	418,548
	<hr/>	<hr/>
Total current assets	5,449,443	10,545,823
Noncurrent Assets		
Property and equipment, net	104,821	160,051
Security deposits	294,986	289,405
Right-of-use lease assets	4,238,980	5,993,540
Licenses	450,000	450,000
	<hr/>	<hr/>
Total assets	<u>\$ 10,538,230</u>	<u>\$ 17,438,819</u>
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable, accrued expenses and other current liabilities	\$ 1,106,779	\$ 1,987,730
Advance, related-party	2,533,387	2,533,387
Due to related party	1,031,682	1,020,670
Operating lease obligations	1,736,908	2,317,164
Deferred revenue	100,598	147,359
	<hr/>	<hr/>
Total current liabilities	6,509,354	8,006,310
Noncurrent Liabilities		
Operating lease obligations, net of current portion	3,224,266	5,389,581
	<hr/>	<hr/>
Total liabilities	9,733,620	13,395,891
Member's Equity		
	<hr/>	<hr/>
	804,610	4,042,928
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Total liabilities and member's equity	<u>\$ 10,538,230</u>	<u>\$ 17,438,819</u>

See notes to financial statements

HCL Lending Solutions, LLC

Statements of Operations

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue	<u>\$ 11,497,699</u>	<u>\$ 29,606,545</u>
Operating Expenses		
Salaries	8,321,344	19,715,220
Employee benefits and taxes	3,689,104	5,254,506
Rent	2,098,275	2,071,959
Utilities	990,724	330,923
Professional fees	153,907	501,890
Depreciation	58,677	80,027
Bad debt expense	-	943,995
Other	412,009	321,279
	<u>15,724,040</u>	<u>29,219,799</u>
Total operating expenses		
	<u>15,724,040</u>	<u>29,219,799</u>
(Loss) income from operations	<u>(4,226,341)</u>	<u>386,746</u>
Other Income		
Related-party income, net	47,781	252,766
Other income	940,242	56,019
	<u>988,023</u>	<u>308,785</u>
Total other income		
	<u>988,023</u>	<u>308,785</u>
Net (loss) income	<u><u>\$ (3,238,318)</u></u>	<u><u>\$ 695,531</u></u>

See notes to financial statements

HCL Lending Solutions, LLC

Statements of Changes in Member's Equity
Years Ended December 31, 2023 and 2022

Member's Equity, December 31, 2021	\$ 6,347,397
Distribution to sole member	(3,000,000)
Net income	<u>695,531</u>
Member's Equity, December 31, 2022	4,042,928
Net loss	<u>(3,238,318)</u>
Member's Equity, December 31, 2023	<u><u>\$ 804,610</u></u>

See notes to financial statements

HCL Lending Solutions, LLC

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Net (loss) income	\$ (3,238,318)	\$ 695,531
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	58,677	80,027
Bad debt expense	-	943,995
Gain on lease modification	(704,147)	-
Loss on disposal of property and equipment	1,348	-
Changes in assets and liabilities:		
Accounts receivable	1,110,290	3,345,637
Prepaid expenses and other current assets	160,318	1,503
Security deposits	(5,581)	2,401
Due to related party	11,012	1,036,609
Operating lease obligations	(286,864)	348,254
Deferred revenue	(46,761)	(258,410)
Accounts payable, accrued expenses and other current liabilities	<u>(880,951)</u>	<u>(1,442,449)</u>
Net cash (used in) provided by operating activities	<u>(3,820,977)</u>	<u>4,753,098</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(4,795)</u>	<u>(23,598)</u>
Cash Flows From Financing Activities		
Advance, related-party	-	2,533,387
Distribution to sole member	<u>-</u>	<u>(3,000,000)</u>
Net cash used in financing activities	<u>-</u>	<u>(466,613)</u>
Net (decrease) increase in cash and cash equivalents	(3,825,772)	4,262,887
Cash and Cash Equivalents, Beginning	<u>7,554,761</u>	<u>3,291,874</u>
Cash and Cash Equivalents, Ending	<u>\$ 3,728,989</u>	<u>\$ 7,554,761</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Decrease to right-of-use lease assets due to lease modifications	<u>\$ 19,060</u>	<u>\$ -</u>
Decrease to operating lease obligations due to lease modifications	<u>\$ 627,753</u>	<u>\$ -</u>

See notes to financial statements

HCL Lending Solutions, LLC

Notes to Financial Statements
December 31, 2023 and 2022

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

HCL Lending Solutions, 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 2023 and 2022, 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 2023 and 2022, 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

Accounts receivable are stated at outstanding balances, less an allowance for credit losses. The Company recognizes an allowance for credit losses for trade and other receivables to present the net amount expected to be collected as of the balance sheet date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on the Company's expectation as of the balance sheet date. Receivables are written off when the Company determined that such receivables are deemed uncollectible. The Company pools its receivables based on similar risk characteristics in estimating its expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the Company measures those receivables individually. The Company also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

The Company utilizes the loss rate method in determining its lifetime expected credit losses on its receivables. This method is used for calculating an estimate of losses based primarily on the Company's historical loss experience. In determining its loss rates, the Company evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, the customer creditworthiness, changes in the terms of receivables, effect of other external forces such as competition, and legal and regulatory requirements on the level of estimated credit losses in the existing receivables. For receivables that are not expected to be collected within the normal business cycle, the Company considers current and forecasted direction of the economic and business environment. Such forecasted information includes: GDP growth, unemployment rates and interest rates amongst others. The allowance for credit losses was approximately \$950,000 as of December 31, 2023 and 2022. The allowance for credit losses is primarily related to a specific customer that declared bankruptcy in 2022. The allowance for credit losses represents 100% of the outstanding receivables for this customer as of December 31, 2023 and 2022.

HCL Lending Solutions, LLC

Notes to Financial Statements
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Property and Equipment

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

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, 2023 and 2022.

HCL Lending Solutions, LLC

Notes to Financial Statements
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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.

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, 2023 and 2022, unbilled accounts receivable represented approximately \$0 and \$1,360,000, 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, 2023 and 2022, approximately \$101,000 and \$147,000, 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, 2023 and 2022.

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.

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Adoption of New Accounting Standard

In June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current accounting principles generally accepted in the United States of America, which generally require that a loss be incurred before it is recognized. On January 1, 2023, the Company adopted the ASU using the modified retrospective approach. There was no adjustment to member's equity upon adoption.

Subsequent Events

Subsequent events were evaluated through March 28, 2024, 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Furniture and fixtures	\$ 126,266	\$ 232,125
Equipment	314,701	312,212
Computers	596,166	576,421
Leasehold improvements	339,510	332,148
	<u>1,376,643</u>	<u>1,452,906</u>
Less accumulated depreciation	<u>1,271,822</u>	<u>1,292,855</u>
Property and equipment, net	<u>\$ 104,821</u>	<u>\$ 160,051</u>

Depreciation expense was approximately \$59,000 and \$80,000 for the years ended December 31, 2023 and 2022, respectively.

3. Lease Commitments

The Company leases office space under noncancelable 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.

HCL Lending Solutions, LLC

Notes to Financial Statements

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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 operating 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 \$2,098,000 and \$2,072,000 for the years ended December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the weighted-average remaining lease term and discount rate for these operating leases were 2.92 years and 6.6% and 2.83 years and 2.11%, respectively. During the year ended December 31, 2023, the Company modified one of its operating lease agreements. The modification resulted in a gain of approximately \$700,000 and is included in other income in the accompanying statements of operations.

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

2024	\$	2,009,250
2025		1,784,994
2026		1,269,729
2027		<u>423,163</u>
Total lease payments		5,487,136
Less amounts representing interest		<u>525,962</u>
Total	\$	<u>4,961,174</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 \$172,000 and \$508,000 for the years ended December 31, 2023 and 2022, respectively.

5. Concentrations

One customer accounted for approximately 77% and 85% of total revenue for the years ended December 31, 2023 and 2022, respectively. Accounts receivable, including unbilled accounts receivable, due from this customer were approximately \$1,453,000 and \$2,194,000 at December 31, 2023 and 2022, respectively.

HCL Lending Solutions, LLC

Notes to Financial Statements
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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 \$1,032,000 and \$1,021,000 at December 31, 2023 and 2022, respectively.

During 2022, the Company received an advance from HCL of approximately \$2,500,000.

In January 2024, the Company paid approximately \$1,100,000 to HCL.