

HealthPlan Services, Inc.

Special Purpose Financial Statements
Years Ended December 31, 2020 and 2019



Williams Overman Pierce, LLP
CPAs • Advisors

HealthPlan Services, Inc.
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Years Ended December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Member of
HealthPlan Services, Inc.

We have audited the accompanying special purpose financial statements of HealthPlan Services, Inc., which are comprised of the balance sheet as of December 31, 2020, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the special purpose financial statements.

Management's Responsibility for the Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special purpose 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 special purpose 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 special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special purpose 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 special purpose 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 special purpose 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 special purpose financial statements referred to above present fairly, in all material respects, the financial position of HealthPlan Services, Inc. as of December 31, 2020, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.



Basis of Accounting

We draw attention to Note 1 of the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements are prepared on the basis of accounting discussed in Note 1, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Prior Period Financial Statements

The special purpose financial statements of HealthPlan Services, Inc. as of December 31, 2019 were audited by other auditors whose report dated June 15, 2020 expressed an unmodified opinion on those special purpose financial statements.

Restriction on Distribution and Use

This report is intended solely for the information and use of the board of directors and management of HealthPlan Services, Inc., and for Wipro Limited, its ultimate holding company, for the purpose of meeting the requirements of Section 137 of the Companies Act, 2013, read with rules thereunder, and is not intended to be and should not be used by anyone other than these specified parties. Our opinion is not modified with respect to that matter.

SD/-

Raleigh, North Carolina
May 19, 2021

HealthPlan Services, Inc.**Balance Sheets - Special Purpose****As of December 31, 2020 and 2019****(In thousands, except share and per share amounts)**

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents		
Unrestricted cash	\$ 22,366	\$ 11,951
Restricted cash (See Note 1)	706	388
Accounts receivable, net of allowance for doubtful accounts of \$1,266 and \$1,324, respectively	7,254	14,416
Contract assets	7,067	6,880
Prepaid expenses and other current assets	6,668	5,535
Total current assets	<u>44,061</u>	<u>39,170</u>
Property and equipment, net	18,383	26,751
Operating lease right of use assets, net	6,016	9,037
Other assets	8	80
	<u>24,407</u>	<u>35,868</u>
	<u>\$ 68,468</u>	<u>\$ 75,038</u>
<u>Liabilities and Stockholder's Equity</u>		
Current liabilities:		
Accounts payable	\$ 2,454	\$ 2,608
Premiums payable to carriers	1,970	2,408
Accrued liabilities	25,688	16,181
Loan payable	-	220
Current portion of operating lease obligations	3,660	3,418
Related party notes payable	5,074	22,115
Other liabilities	413	507
Contract liabilities	1,220	668
Related party payables, net	2,330	2,879
Total current liabilities	<u>42,809</u>	<u>51,004</u>
Long-term liabilities:		
Operating lease obligations, less current portion	<u>3,082</u>	<u>6,878</u>
Commitments and contingencies		
Stockholder's equity		
Common stock, \$0.01 par value, 1,000 shares issued and outstanding	-	-
Additional paid-in capital	106,000	76,000
Accumulated deficit	(83,423)	(58,844)
	<u>22,577</u>	<u>17,156</u>
	<u>\$ 68,468</u>	<u>\$ 75,038</u>

See accompanying notes to special purpose financial statements.

HealthPlan Services, Inc.**Statements of Operations - Special Purpose
For the Years Ended December 31, 2020 and 2019
(In thousands)**

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 143,297	\$ 143,599
Operating expenses:		
Personnel expenses	83,308	78,669
General and administrative	63,718	58,177
Depreciation and amortization	9,276	10,253
Sub-contracting expenses	9,930	13,423
Agent commissions	774	782
Other operating expenses	330	248
Impairment loss	-	29,449
Total operating expenses	<u>167,336</u>	<u>191,001</u>
Loss from operations	(24,039)	(47,402)
Interest expense	575	1,172
Other income	<u>(35)</u>	<u>(1,172)</u>
Loss before provision for income taxes	(24,579)	(47,402)
Provision for income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (24,579)</u>	<u>\$ (47,402)</u>

See accompanying notes to special purpose financial statements.

HealthPlan Services, Inc.

**Statements of Changes in Stockholder's Equity - Special Purpose
For the Years Ended December 31, 2020 and 2019
(In thousands, except share and per share amounts)**

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholder's Equity
	Shares	Amount			
Balance as of January 1, 2019	1,000	\$ -	\$ 21,000	\$ (11,442)	\$ 9,558
Capital contribution			55,000		55,000
Net loss				(47,402)	(47,402)
Balance as of December 31, 2019	1,000	\$ -	\$ 76,000	\$ (58,844)	\$ 17,156
Capital contribution			30,000		30,000
Net loss				(24,579)	(24,579)
Balance as of December 31, 2020	<u>1,000</u>	<u>\$ -</u>	<u>\$ 106,000</u>	<u>\$ (83,423)</u>	<u>\$ 22,577</u>

See accompanying notes to special purpose financial statements.

HealthPlan Services, Inc.**Statements of Cash Flows - Special Purpose
For the Years Ended December 31, 2020 and 2019
(In thousands)**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net loss	\$ (24,579)	\$ (47,402)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,276	10,253
Impairment of property and equipment	-	8,295
Impairment of goodwill and intangible assets	-	19,618
Impairment of investment in subsidiary	-	1,536
Loss (gain) on disposal of equipment	574	(1,161)
Allowance for doubtful accounts	(58)	(10)
Changes in assets and liabilities:		
Accounts receivable and contract assets	7,033	5,720
Prepaid expenses, other current assets, and other assets	(1,061)	2,281
Operating lease right of use assets, net	3,021	(9,037)
Accounts payable	(154)	(4,092)
Premiums payable to carriers	(438)	(602)
Accrued liabilities and other liabilities	9,413	(10,143)
Accrued interest expense on related party note payable	74	193
Contract liabilities	552	(3,913)
Related party payables, net	(549)	(158)
Operating lease obligations	(3,554)	10,296
Net cash used in operating activities	<u>(450)</u>	<u>(18,326)</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	-	1,183
Purchases of property and equipment	(1,481)	(6,448)
Net cash used in investing activities	<u>(1,481)</u>	<u>(5,265)</u>
Cash flows from financing activities:		
Capital contribution	30,000	55,000
Payments on related party notes payable	(17,116)	(11,686)
Payments on loan payable	(220)	(11,279)
Net cash provided by financing activities	<u>12,664</u>	<u>32,035</u>
Net increase in cash and cash equivalents	10,733	8,444
Cash and cash equivalents:		
Beginning of year	<u>12,339</u>	<u>3,895</u>
End of year	<u>\$ 23,072</u>	<u>\$ 12,339</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 501</u>	<u>\$ 979</u>

See accompanying notes to special purpose financial statements.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

Note 1. Description of Business and Organization and Summary of Significant Accounting Policies

HealthPlan Services, Inc. (“HPSI”), a Florida corporation, is the largest independent provider of sales, service, retention and technology solutions to the insurance and managed care industry. Since 1970, HPSI has offered customized administration, distribution and technology services to insurers of individual, small group, voluntary and association plans, as well as valuable solutions to thousands of brokers and agents. HPSI’s proprietary, scalable technology provides innovative consumer-facing solutions that are turnkey self-service tools for insurance carriers and distribution partners. HPSI offers an ever-expanding array of services to a diverse and growing client base, and administers products that include medical (PPO, HMO, indemnity, consumer-driven), dental, vision, life, disability, cancer, critical illness, accident, long-term care, limited medical, as well as various other ancillary insurance. HPSI also provides services for the administration of the Affordable Care Act.

HPSI’s operations are based in Tampa, Florida and Canfield and Westerville, Ohio. HPSI hereinafter, referred to as “the Company”, “our”, or “we”. The Company’s parent is Wipro IT Services, LLC (the “Parent”).

The Company provides distribution, underwriting, administrative services (i.e. billing, claims and call centers), and technology solutions for insurance companies, health maintenance organizations, associations, individuals, small businesses, and larger employers. The Company functions solely as a service provider generating fee-based income and does not assume any underwriting risk. It operates as a single, integrated business entity by leveraging a shared information technology backbone, expertise in administration, management and facilities.

HPSI also provides sales support, administration, and claims adjudication services to the self-funded, ancillary, and commercial major medical markets.

Liquidity and management’s plans: As shown in the accompanying special purpose financial statements, the Company had a net loss and negative cash flows from operations. Management plans to increase revenues through recovery of lost customers and expanding its market, and seeks to control costs. However, there can be no assurances that management’s plans will be achieved. The Parent has committed to provide working capital necessary for funding the operations of the Company through one year from the date of this report, as needed. The Parent has further demonstrated their ability to fund the operations through a capital contribution of \$30,000 during the year ended December 31, 2020.

A summary of the Company’s significant accounting policies are as follows:

Basis of Accounting: The special purpose financial statements of the Company have been prepared using a basis of accounting other than accounting principles generally accepted in the United States of America (“U.S. GAAP”) as the accompanying special purpose financial statements do not include the results of our wholly-owned subsidiary, HealthPlan Services Insurance Agency, LLC. The financial position, results of operations, and cash flows of HealthPlan Services Insurance Agency LLC have not been consolidated with the Company as required by Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, *Consolidation*. Additionally, the Company is not accounting for its investment in subsidiaries in accordance with FASB ASC 323, *Investments – Equity Method and Joint Ventures*. Instead, the Company has elected to account for its investment in subsidiaries at cost, less any impairments, which approximates fair value at December 31, 2020 and 2019. The special purpose financial statements include only the results of the Company as of and for the years ended December 31, 2020 and 2019 prepared on the accrual basis. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The special purpose financial statements have been prepared for the purpose of meeting the requirements of Section 137 of the Companies Act, 2013, read with rules thereunder, by Wipro Limited, the Company’s ultimate holding company.

These special purpose financial statements have been prepared on a going concern basis, which assumes the realization of assets and satisfaction of liabilities in the normal course of business. These special purpose financial statements have been presented in U.S. Dollars, in thousands, which is the functional and reporting currency of the Company.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

Use of estimates: The preparation of these special purpose financial statement requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company reviews its estimates, including but not limited to, recoverability of long-lived assets, on a regular basis, and makes adjustments based on historical experiences and existing and expected future conditions. These evaluations are performed, and adjustments are made as information is available. Management believes that these estimates are reasonable; however, actual results could differ from these estimates.

Revenue recognition: The Company's operating revenues consist of per member per month fees, which are based on services provided to the carrier's monthly serviceable members, fees charged for other administrative services, and fees based upon premiums collected on behalf of or collected by the insurance carriers.

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. To recognize revenues, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenues when a performance obligation is satisfied. At contract inception, the Company assesses its promise to transfer products or services to a customer to identify separate performance obligations. The Company applies judgement to determine whether each product or services promised to a customer are capable of being distinct, and are distinct in the context of the contract, if not, the promised product or services are combined and accounted for as a single performance obligation. The Company allocates the arrangement consideration to separately identifiable performance obligations based on their relative stand-alone selling price or the residual method. Stand-alone selling prices are determined based on sale prices for the components when it is regularly sold separately. In cases where the Company is unable to determine the stand-alone selling price, the Company uses third-party prices for similar deliverables or the Company uses expected cost-plus margin approach in estimating the stand-alone selling price.

For performance obligations where control is transferred over time, revenues are recognized by measuring progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the promised products or services to be provided.

Revenues are recognized ratably over contractual periods or as claims processing and administrative services are performed. Minimum fixed and determinable revenue provided in contracts is also recognized on a straight-line basis, limited to amounts billable according to contractual terms. Revenues from customers with certain contingent rights and revenues based on a percentage of collected cash are not recognized until the corresponding cash is collected. For some of these carriers, whereby the Company has the authority to withhold the amounts related to agent commissions, such collections are directly recognized as revenue. Revenue collected in advance is recorded as a contract liability (deferred revenue) until the related services are performed.

Any change in scope or price is considered as a contract modification. The Company accounts for modifications to existing contracts by assessing whether the services added are distinct and whether the pricing is at the stand-alone selling price. Services added that are not distinct are accounted for on a cumulative catch up basis, while those that are distinct are accounted for prospectively, either as a separate contract if the additional services are priced at the stand-alone selling price, or as a termination of the existing contract and creation of a new contract if not priced at the stand-alone selling price.

The Company accounts for variable considerations such as volume discounts, rebates, and pricing incentives to customers as a reduction of revenue on a systematic and rational basis over the period of the contract. The Company estimates an amount of such variable consideration using expected value method or the single most likely amount in a range of possible consideration depending on which method better predicts the amount of consideration to which the Company may be entitled.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

Revenues are shown net of allowances/returns, sales tax, value added tax, goods and services tax, and applicable discounts and allowances.

Incremental costs that relate directly to a contract and incurred in securing a contract with a customer are recognized as an asset when the Company expects to recover these costs and amortized over the contract term.

The Company recognizes contract fulfillment costs as an asset if those costs specifically relate to a contract or to an anticipated contract, the costs generate or enhance resources that will be used in satisfying performance obligations in the future; and the costs are expected to be recovered. The asset recognized is amortized on a systematic basis consistent with the transfer of goods or services to the customer to which the asset relates.

The Company assesses the timing of the transfer of goods or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. As a practical expedient, the Company does not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of financing to either the customer or us, no financing component is deemed to exist.

The Company may enter into arrangements with third party suppliers to resell products or services. In such cases, we evaluate whether we are the principal (i.e. report revenues on a gross basis) or agent (i.e. report revenues on a net basis). In doing so, we first evaluate whether we control the good or service before it is transferred to the customer. If we control the good or service before it is transferred to the customer, we are the principal; if not, we are the agent.

A. Contract Asset and Liabilities

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company classifies its right to consideration in exchange for deliverables as either an accounts receivable or an unbilled receivable (contract asset).

Contract assets: Contract assets include unbilled amounts from projects when revenues recognized exceed the amounts invoiced to customers related to time and materials contracts or volume-based contracts. Such amounts are recoverable from customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. Contract assets do not include capitalized costs to obtain and fulfill a contract.

During the year ended December 31, 2020, \$1,017 of unbilled revenue as of January 1, 2020, pertaining to fixed-price contracts, has been reclassified to trade receivables on completion of certain milestones. During the year ended December 31, 2019, \$288 of unbilled revenue as of January 1, 2019, pertaining to fixed-price contracts, has been reclassified to trade receivables on completion of certain milestones.

Contract liabilities: Contract liabilities arise when amounts invoiced to customers exceed revenues recognized under the cost-to-cost measure of progress. Contract liabilities can also include provision for losses on uncompleted contracts or advanced payments from customers on certain contracts.

During the year ended December 31, 2020, the Company recognized revenue of \$460 arising from opening unearned revenue as of January 1, 2020. During the year ended December 31, 2019, the Company recognized revenue of \$4,438 arising from opening unearned revenue as of January 1, 2019.

Contract assets and liabilities are reported in a net position on a contract by contract basis at the end of each reporting period. As of January 1, 2019, the balances of accounts receivable (net of allowance for doubtful accounts of \$1,324), contract assets, and contract liabilities were \$18,875, \$8,131, and \$4,581, respectively.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

B. Remaining Performance Obligations

Revenue allocated to remaining performance obligations represent contracted revenue that has not yet been recognized, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. Applying the practical expedient, the Company has not disclosed its right to consideration from customers in an amount that corresponds directly with the value to the customer of the Company's performance completed to date. These include contracts invoiced on a time and material basis or those that are volume-based.

C. Disaggregation of Revenues

The table below presents disaggregated revenues from contracts with customers by contract-type. The Company believes that the below disaggregation best depicts the nature, amount, timing, and uncertainty of revenue and cash flows from economic factors for the years ended December 31:

<u>Revenue by nature of contract</u>	<u>2020</u>	<u>2019</u>
Time and materials	\$ 140,167	\$ 137,227
Fixed-price and volume based	3,130	6,372
	<u>\$ 143,297</u>	<u>\$ 143,599</u>

Cash and cash equivalents: Cash and cash equivalents are defined as highly liquid investments that have maturities of three months or less when purchased. Cash and cash equivalents of the Company include bank accounts for two insurance carriers, who are clients of the Company, amounting to approximately \$706 and \$388 as of December 31, 2020 and 2019, respectively, used to hold deposits for the carriers' premiums. The Company may only transfer this cash out of the accounts according to the terms between the Company and each of the carriers as stated within the contract. These amounts are classified as restricted cash on the accompanying balance sheets – special purpose.

As of December 31, 2020 and 2019, the Company had cash balances of approximately \$22,822 and \$12,089, respectively, in excess of limits insured by the Federal Deposit Insurance Corporation. This potentially subjects the Company to market and credit risk. Management periodically assesses the quality of the financial institutions and believes that the risk related to these deposits is minimal.

Cash and cash equivalents are stated at cost, which approximates fair value, based on quoted market prices as of December 31, 2020 and 2019.

Accounts receivable: Accounts receivable are uncollateralized customer obligations that are recorded when the Company performs its services. The Company determines its allowance for doubtful accounts considering a number of factors, including the overall aging of the receivables, previous history with the customer, contractual terms of the Company's contracts, and the customer's current ability to pay its obligation to the Company. Upon completion of all collection efforts, remaining uncollectible accounts are written off. As of December 31, 2020 and 2019, the Company had an allowance for doubtful accounts of approximately \$1,266 and \$1,324, respectively.

As of December 31, 2020 and 2019, there was approximately \$7,067 and \$6,880, respectively, in accounts receivable for services provided to customers but not yet billed.

Prepaid expenses and other current assets: Prepaid expenses and other current assets consist primarily of prepayments related to insurance, postage, and repair and maintenance contracts.

Property and equipment: Property and equipment is stated at cost. Costs of the assets acquired in prior business combinations have been recorded at their respective fair values at the date of acquisition. Expenditures for maintenance and repairs and research and development costs are expensed as incurred. Major improvements that increase the estimated useful life of an asset are capitalized.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets:

	<u>Years</u>
Furniture and fixtures	3-10
Computer equipment and software	2-7
Developed software – internal use	2-7
Leasehold improvements	The lesser of the lease term or life of the asset

In accordance with FASB ASC Topic 350, *Intangibles-Goodwill and Other*, certain external direct costs of materials and services, internal payroll and payroll related costs, contracted programming costs, and other qualifying costs incurred in connection with developing or obtaining internal use software are capitalized. No such amounts were capitalized for the years ended December 31, 2020 and 2019.

Intangibles and impairment of long-lived assets (except goodwill): The Company's long-lived assets (asset groups) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset (asset group) may not be recoverable. Recoverability of long-lived assets (asset groups) to be held and used is measured by a comparison of the carrying amount of a long-lived asset (asset group) to future net cash flows (undiscounted and without interest charges) expected to be generated by the long-lived asset (asset group) to determine if an impairment exists. If such long-lived assets (asset groups) are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the long-lived assets (asset groups) exceed their fair value, which is estimated by calculating the discounted future net cash flows associated with the asset (asset group). Long-lived assets (asset groups) to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company also timely performs the impairment test on its long-lived assets as increasing net losses and increasing amounts of cash used in operations indicate that its carrying value may not be recoverable. Based on the results of the test, the Company recorded property and equipment impairment expense of \$8,295 related to developed software – internal use, which is reported in impairment loss in the accompanying statements of operations – special purpose for the year ended December 31, 2019. No such impairments were recorded during the year ended December 31, 2020.

Other intangible assets: Finite-lived intangible assets resulting from previous business combinations were recognized at fair value at the date of acquisition. Other intangible assets consist of customer lists and are amortized over 10 years using the straight-line method.

During the year ended December 31, 2019, the Company determined a triggering event occurred due to increasing net losses and increasing amounts of cash used in operations. The Company performed an impairment test of other intangible assets, noting that the fair value of equity, which was determined using a valuation method with a present value approach, was approximately \$3,125 less than the carrying value. As a result, the Company recorded other intangible asset impairment expense of \$3,125 during the year ended December 31, 2019, which is included in impairment loss in the accompanying statements of operations – special purpose. No such impairments were recorded during the year ended December 31, 2020.

Goodwill: Goodwill results from the excess of the consideration transferred for an acquisition over the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed in previous business combinations. The Company amortizes its goodwill over 10 years using the straight-line method. The Company tests its recorded goodwill for impairment upon a triggering event at the entity level. Factors that could trigger an impairment test include, but are not limited to, under performance relative to historical or projected future operating results, significant changes in the Company's overall business, significant negative industry or economic trends.

During the year ended December 31, 2019, the Company determined a triggering event occurred due to increasing net losses and increasing amounts of cash used in operations. The Company performed an impairment test of goodwill, noting that the fair value of equity, which was determined using a valuation method using a present value approach, was approximately \$16,493 less than the carrying value. As a result, the Company recorded goodwill impairment expense of \$16,493 during the year ended December 31, 2019, which is included in impairment loss in the accompanying statements of operations – special purpose. No such impairments were recorded during the year ended December 31, 2020.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

Investment in subsidiary: The Company has elected to account for its investment in HealthPlan Services Insurance Agency LLC, its wholly-owned subsidiary, at cost, less any impairments, which approximates fair value. The carrying amount of investments are reviewed annually for potential impairment or when changes in circumstances indicate the carrying amount of the investment may not be recoverable. During the year ended December 31, 2019, the Company recorded an impairment expense of \$1,536 which is included in impairment loss in the accompanying statements of operations – special purpose. As of December 31, 2020 and 2019, the investment in subsidiary balance was \$0.

Premiums payable to carriers: The Company collects insurance premiums on behalf of certain insurance carrier customers and managed care customers. The amount of premiums collected in excess of the Company’s compensation for the services it provides are recorded as premiums payable and are paid to the customers according to contractual terms. As of December 31, 2020 and 2019, two customers represented \$1,957 and \$2,240, or 99% and 93%, respectively, of the total premiums payable outstanding.

Commissions payable: Agent commissions are recognized as expenses in the same period that corresponding revenues are recognized. These commissions are paid to the agents in the month after the related premiums are collected. Commissions payable are included in accrued liabilities on the balance sheets – special purpose.

Leases: The Company has both operating and financing leases for office space and IT equipment. We determine if a contract is, or contains, a lease at inception. A contract is, or contains, a lease if the contract conveys the right to control the use of identified property or equipment (an identified asset) for a period of time in exchange for consideration. We have the right to control the use of the identified asset when we have both of the following: the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. In making this determination, we consider all relevant facts and circumstances. Operating lease right of use (“ROU”) assets are included in non-current assets and operating lease obligations are included in current and non-current liabilities on the accompanying balance sheets – special purpose. Finance lease ROU assets are included in non-current assets and financing lease obligations are included in current liabilities on the accompanying balance sheets – special purpose.

Our ROU asset is recognized as the lease obligation including any initial indirect costs and any prepaid lease payments, less any lease incentives. Our lease obligations are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Our lease payments consist of amounts relating to the use of the underlying asset during the lease term, specifically fixed payments, payments to be made in optional periods when we are reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease and the amounts probable of being owed by us under residual guarantees. Our variable lease payments are excluded in measuring ROU assets and lease obligations because they do not depend on an index or a rate and are not in substance fixed payments. We exclude lease incentives and initial direct costs incurred from our lease payments. Our leases typically do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments.

For operating leases, after lease commencement, we measure our lease obligation for each period at the present value of any remaining lease payments, discounted by using the rate determined at lease commencement. We recognize a single operating lease expense calculated on a straight-line basis over the remaining lease term. The depreciation of the ROU asset increases each year as a result of the declining lease obligation balance.

For finance leases, after lease commencement, we measure our lease obligation by using the effective interest rate method. In each period, the lease obligation will be increased to reflect the interest that is accrued on the related lease obligation by using the appropriate discount rate, offset by a decrease in the lease obligation resulting from the periodic lease payments. We recognize the ROU asset at cost, reduced by any accumulated depreciation. The ROU asset is depreciated on a straight-line basis. Together, the interest expense and depreciation expense result in a front-loaded expense profile. Interest expense and depreciation expense are presented separately on our accompanying statement of operations – special purpose.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

In our accompanying statements of operations – special purpose, we recognize lease expense within general and administrative expense. For leases classified as financing, the interest on lease obligations is classified within interest expense.

Income taxes: The Company files consolidated income tax returns with its parent company in the U.S. federal jurisdiction and various states, whenever applicable, and records its share of the consolidated federal tax liability on a parent-company-down approach. The Company regularly reviews the likelihood of additional tax assessments and adjusts its reserves as additional information or events require. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company believes that its tax positions comply with applicable tax laws and that the Company has adequately provided for applicable tax matters as of December 31, 2020 and 2019.

The Company accounts for uncertain tax positions in accordance with FASB ASC 740, *Income Taxes*. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit or liability is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit or liability to be recognized is measured as the largest amount of benefit or liability that is greater than 50% likely of being realized upon ultimate settlement. Management has determined there are no uncertain income tax positions requiring recognition in the accompanying special purpose financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2016.

Note 2. Goodwill and Other Intangible Assets

The following table represents the balance and changes in goodwill as of and for the year ended December 31, 2019:

Beginning balance	\$	43,981
Less: accumulated amortization		(27,488)
Less: impairment		(16,493)
Ending balance	\$	<u>-</u>

Amortization expense relating to goodwill totaled \$4,398 for the year ended December 31, 2019 and is included in depreciation and amortization in the accompanying statements of operations – special purpose.

Other intangible assets consisted of the following as of December 31, 2019:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Impairment</u>	<u>Net Book Value</u>
Other intangible assets	\$ 25,000	\$ (21,875)	\$ (3,125)	\$ -

Amortization expense relating to other intangible assets totaled \$2,083 for the year ended December 31, 2019, and is included in depreciation and amortization in the accompanying statements of operations – special purpose.

Note 3. Concentration of Customers

The Company is party to a variety of contracts with insurance companies, managed care organizations, and other health care provider customers located throughout the U.S. to provide third-party marketing, administration, claims and data management services, and other value-added services.

Major customers are those that account for 10% or more of the Company's total revenue for the years ended December 31, 2020 and 2019, or have net receivable balances as of December 31, 2020 and 2019, in excess of 10% of total accounts receivable, net of the allowance for doubtful accounts.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

As of December 31, 2020, three customers represented over 88% of accounts receivable, and for the year ended December 31, 2020, the same three customers represented 71% of total revenue as follows:

	<u>Receivables</u>	<u>Revenue</u>
Customer A	\$ 3,301	\$ 45,572
Customer B	\$ 2,166	\$ 31,824
Customer C	\$ 917	\$ 23,747

As of December 31, 2019, three customers represented over 88% of accounts receivable, and for the year ended December 31, 2019, the same three customers represented 69% of total revenue as follows:

	<u>Receivables</u>	<u>Revenue</u>
Customer A	\$ 6,488	\$ 43,711
Customer B	\$ 3,895	\$ 32,207
Customer C	\$ 2,372	\$ 23,364

Note 4. Property and Equipment

Property and equipment consisted of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 1,468	\$ 1,464
Computer equipment and software	86,680	99,362
Developed software - internal use	85,600	85,600
Leasehold improvements	2,767	2,537
ROU assets - IT equipment	2,032	2,032
	<u>178,547</u>	<u>190,995</u>
Less: accumulated depreciation and amortization	(151,869)	(155,949)
Less: accumulated impairment	(8,295)	(8,295)
	<u>\$ 18,383</u>	<u>\$ 26,751</u>

Note 5. Leases

For operating leases, the ROU assets and lease liabilities are presented in our accompanying balance sheets – special purpose as follows as of December 31:

<u>Financial Statement Line Item</u>	<u>Balance Sheet Classification</u>	<u>2020</u>	<u>2019</u>
Operating lease right of use assets	Other noncurrent assets	\$ 6,016	\$ 9,037
Operating lease obligations - current	Other current liabilities	\$ 3,660	\$ 3,418
Operating lease obligations - non current	Other noncurrent liabilities	\$ 3,082	\$ 6,878

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

Other supplemental information related to operating leases includes the following as of and for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Weighted-Average Remaining Contractual Lease Term (Years)	1.8	2.7
Weighted-Average Discount Rate	4.55%	4.58%
Cash paid for amounts included in measuring operating lease liabilities:		
Operating cash outflows from operating leases	\$ 4,271	\$ 4,760
Operating lease assets obtained in exchange for lease obligations	\$ 182	\$ 12,072

As of and for the years ended December 31, 2020 and 2019, the balance and activity of finance leases were not significant.

Operating lease costs included in general and administrative expenses in the accompanying statements of operations – special purpose during the years ended December 31, 2020 and 2019 totaled \$3,737 and \$4,253, respectively.

As of December 31, 2020 and 2019, future minimum rental commitments required under the terms of the existing operating leases are as follows:

	<u>2020</u>	<u>2019</u>
0-1 year	\$ 3,899	\$ 3,827
1-2 year	2,714	4,226
2-3 year	264	2,696
3-4 year	182	159
4-5 year	-	93
Future minimum lease payments	7,059	11,001
Less: amounts representing interest	(317)	(705)
Present value of minimum lease payments	6,742	10,296
Less: Current portion	(3,660)	(3,418)
Long-term portion	<u>\$ 3,082</u>	<u>\$ 6,878</u>

Note 6. Credit Facilities

The Company's related party notes payable and loan payable consisted of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Unsecured related party notes payable to Wipro, including accrued interest ranging from 2.9% to 4.09%, due on demand (Note 8)	\$ 5,074	\$ 22,115
Note payable due in 2020, with interest rate of 2.8%, collateralized by assets with net book value of \$31	-	220
	<u>\$ 5,074</u>	<u>\$ 22,335</u>

Overdraft Protection: The Company has access to an unsecured short-term account overdraft facility ("Overdraft Account") that is maintained by Citibank. The Overdraft Account is shared by the Company and other U.S. Wipro subsidiaries with a maximum total availability of \$10,000. The Overdraft Account has no interest charges. Draws on the account are repaid in approximately 14 calendar days. As of December 31, 2020 and 2019, there were no outstanding balances on the Overdraft Account.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

Line of Credit: The Company has an unsecured line of credit (“LOC”) facility with a financial institution with a maximum borrowing capacity of \$15,000, which is guaranteed by the Company’s Parent. Principal and interest payments are due on demand or at maturity date, if no demand is made. The LOC matures on August 31, 2021. Note that no line of credit being drawn from the LOC facility or loan shall have a term of more than one year. In 2018, the Company converted the interest rate to the monthly floating London Interbank Offered Rate (“LIBOR”) rate. There was no outstanding principal and accrued interest balance as of December 31, 2020 and 2019.

Note 7. Employee Benefit Plans

Defined contribution plan: The Company has a defined contribution employee benefit plan established pursuant to Section 401(k) of the Internal Revenue Code covering substantially all employees. A total of 560 and 524 employees participated in the plan at December 31, 2020 and 2019, respectively.

The Company matches all of the employee contributions in the plan limited to 3% of the employee’s salary plus an additional 50% match on the next 2% of the employee’s salary. Under the provisions of the plan, participants’ rights to employer contributions vest 100% on the date the employee completes one year of service with the Company and meets a plan entry date for matching purposes of January 1 or July 1 that coincides with, or next follows, the anniversary date.

The Company’s matching expense in connection with this plan for the years ended December 31, 2020 and 2019 was \$1,048 and \$1,130, respectively, and is included in personnel expenses in the accompanying statements of operations – special purpose.

Note 8. Related Party Transactions

During the years ended December 31, 2020 and 2019, Wipro Group companies paid \$26,966 and \$24,301, respectively, in net revenue to the Company and the Company paid \$10,488 and \$14,455, respectively, to Wipro Group companies for various services. The transactions for services provided by Wipro Group companies are included in sub-contracting expenses and interest expense in the accompanying statements of operations – special purpose. Additionally, certain expenses incurred by our wholly-owned subsidiary are recorded by the Company as a pass through expense as the costs are reimbursed by our wholly-owned subsidiary. During the year ended December 31, 2020, our wholly-owned subsidiary reimbursed us for personnel expenses of \$1,300, general and administrative expenses of \$257, and agent commissions of \$1,407. During the year ended December 31, 2019, our wholly-owned subsidiary reimbursed us for personnel expenses of \$1,192, general and administrative expenses of \$373, and agent commissions of \$1,539.

As of December 31, 2020 and 2019, the Company had net related party payable balances of \$2,330 and \$2,879, respectively. Additionally, the Company had \$5,074 and \$22,115 in related party notes payable to Wipro Group companies as of December 31, 2020 and 2019, respectively. These related party payables represent notes and accrued interest (see Note 6), charges for software subscriptions, employee benefits, and information technology and data center resources. Amounts payable under these arrangements are uncollateralized and are due on demand.

Note 9. Commitments and Contingencies

Regulatory compliance: The Company’s activities are highly regulated by state and federal regulatory agencies under requirements that are subject to broad interpretations. The Company cannot predict the position that may be taken by these third parties that could require changes to the manner in which the Company operates.

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”) is an evolving area of law and is subject to ongoing regulatory and judicial interpretations. ERISA governs the relationships between certain health benefit plans and the fiduciaries of those plans. In general, ERISA is designed to protect the ultimate beneficiaries of the plans from wrongdoing by the fiduciaries. ERISA provides that a person is a fiduciary of a plan to the extent that such person has discretionary authority in the administration of the plan or with respect to the plan’s assets.

HealthPlan Services, Inc.

Notes to Financial Statements – Special Purpose (In Thousands)

Each employer is a fiduciary of the plan it sponsors, but there also can be other fiduciaries of a plan. ERISA imposes various express obligations on fiduciaries. For example, a fiduciary must prevent its plan from engaging in certain prohibited transactions with parties in interest or from acting under an impermissible conflict of interest with a plan. Generally, a party in interest with respect to a plan includes a fiduciary of the plan and persons that provide services to the plan.

State regulation: The Company is subject to regulation under health care, insurance, and other laws of all 50 states, the District of Columbia, and Puerto Rico. Many states require the Company or its employees to receive regulatory approval or licensure to provide claims administration services. State regulators have relatively broad discretion to interpret these laws when granting, renewing or revoking licenses or approvals. Regulators could construe some of these laws to prohibit or restrict practices that have been significant factors in the Company’s operating procedures for many years.

Litigation: The Company is subject to pending and threatened litigation that arises in the ordinary course of business. Although the outcome of this litigation cannot be predicted with certainty, management believes that ultimate disposition of such matters will not have a material effect on the Company’s special purpose financial statements. As of December 31, 2020 and 2019, the Company is carrying a provision of \$7,000 and \$3,000 related to an ongoing litigation dispute with a former customer. This represents management’s best estimate of the possible loss associated with this matter. The provision is included in accrued liabilities in the accompanying balance sheets – special purpose.

Note 10. COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

In assessing the recoverability of receivables, the Company has considered internal and external information up to the date the special purpose financial statements were available to be issued, including credit reports and economic factors. Based on the current indicators of future economic conditions, the Company expects to recover the carrying amount of these assets.

Based on the Company’s assessment, management believes the Company’s special purpose financial statements will not be materially impacted by COVID-19. However, the impact of COVID-19 remains uncertain and may be different from what the Company has estimated as of May 19, 2021. The Company will continue to closely monitor any material changes to future economic conditions.

Note 11. Subsequent Events

Management has evaluated subsequent events through May 19, 2021, which is the date through which the special purpose financial statements were available to be issued. No significant subsequent events have been identified by management.