

**Honest Networks Holdings, LLC and
Subsidiary**
(A Limited Liability Company)

Consolidated Financial Report
December 31, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Honest Networks Holdings, LLC and Subsidiary
New York, New York

Qualified Opinion

We have audited the accompanying financial statements of Honest Networks Holdings, LLC and Subsidiary (a Limited Liability Company) (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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 the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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.

Auditor's 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 auditor's 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 generally accepted auditing standards 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 generally accepted auditing standards, 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.

Davis, Ward & Hochman, LLP

Davis, Ward & Hochman, LLP
New York, New York
January 7, 2025

Honest Networks Holdings, LLC
(A Limited Liability Company)

Consolidated Balance Sheet
December 31, 2023

Assets	
Current assets:	
Cash	\$ 4,107,605
Accounts receivable	143,570
Prepaid expenses and other current assets	56,824
Total current assets	<u>4,307,999</u>
Property and equipment, net	9,733,846
Intangible assets, net	96,421
Other non-current assets	585,845
Right-of-use assets, net	462,956
Total assets	<u><u>\$ 15,187,067</u></u>
Liabilities and Members' Equity	
Current liabilities:	
Accounts payable	\$ 553,193
Accrued expenses	335,634
Deferred revenue	504,280
Operating lease liabilities, current	192,803
Total current liabilities	<u>1,585,910</u>
Operating lease liabilities, noncurrent	284,440
Members' equity	<u>13,316,717</u>
Total liabilities and members' equity	<u><u>\$ 15,187,067</u></u>

See notes to consolidated financial statements

**Honest Networks Holdings, LLC
(A Limited Liability Company)**

**Consolidated Statement of Operations
Year Ended December 31, 2023**

Revenues	\$ 4,924,284
Cost of revenues	<u>3,074,432</u>
Gross profit	<u>1,849,852</u>
Operating expenses:	
Cost of operations, excluding depreciation	3,826,827
Depreciation and amortization	<u>1,539,332</u>
Total operating expenses	<u>5,366,159</u>
Operating loss	(3,516,307)
Other income:	
Interest income, net	<u>(69,592)</u>
Net loss	<u><u>\$ (3,446,715)</u></u>

See notes to consolidated financial statements

**Honest Networks Holdings, LLC
(A Limited Liability Company)**

**Consolidated Statement of Changes in Members' Equity
Year Ended December 31, 2023**

Balance, December 31, 2022	\$ 9,754,073
Net loss	(3,446,715)
Capital contributions	7,000,000
Share-based compensation expense	5,888
Exercise of incentive compensation units	<u>3,471</u>
Balance, December 31, 2023	<u>\$ 13,316,717</u>

See notes to consolidated financial statements.

**Honest Networks Holdings, LLC
(A Limited Liability Company)**

**Consolidated Statement of Cash Flows
Year Ended December 31, 2023**

Cash flows from operating activities:	
Net loss	\$ (3,446,715)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	1,539,332
Share-based compensation expense	5,888
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(40,935)
Prepaid expenses and other current assets	19,835
Right-of-use assets	270,417
Other assets	(74,812)
Increase (decrease) in:	
Accounts payable and accrued expenses	96,730
Deferred revenue	343,128
Operating lease liabilities	(268,799)
Net cash used in operating activities	<u>(1,555,931)</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(5,293,676)</u>
Net cash used in investing activities	<u>(5,293,676)</u>
Cash flows from financing activities:	
Capital contributions	7,000,000
Proceeds from exercise of incentive compensation units	3,471
Net cash provided by financing activities	<u>7,003,471</u>
Increase in cash	153,864
Cash, beginning of year	<u>3,953,741</u>
Cash, end of year	<u><u>\$ 4,107,605</u></u>
Supplemental disclosures of cash flow information:	
Cash paid for:	
Income taxes	\$ 22,514
Interest	\$ -

See notes to consolidated financial statements.

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Honest Networks, LLC (“Honest”) is a New York based internet service provider delivering symmetrical gigabit speed services in the Tri-State metropolitan and Philadelphia markets.

Honest Networks Holdings, LLC (“Holdings”) was formed July 7, 2021 as Honest’s parent company to facilitate new equity investments in the Company. Honest is a wholly-owned subsidiary of Holdings. This legal reorganization was affected among entities under common control and did not result in a change of control. Therefore, the historical results of Honest are deemed to also be the historical results of Holdings.

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

Principles of consolidation: The consolidated financial statements include the accounts of Holdings and subsidiary (collectively, the “Company”). All significant intercompany balances and transactions are eliminated in consolidation.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash: The Company maintains cash deposits with various banks, which may at times exceed federally insured limits.

Revenue recognition: The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, which provides a five-step model for recognizing revenue from contracts with customers as follows:

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
5. Recognize revenue when or as performance obligations are satisfied

Nature of products and services

Internet service revenue: Internet service revenue is recognized over time as the customer consumes the benefits of the services as the Company stands ready to provide access to internet service throughout the contract period. Subscription customers typically are invoiced monthly at the inception of the contract, due on the activation date at the point when the customer is able to use and benefit from the related internet service. The timing of revenue recognition is based on a time-based measure of progress as the Company provides access to the service evenly over the course of the contract period.

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Company only generates revenue under monthly billing arrangements. Customers are billed monthly with payment due on the activation date for services to be provided for that month. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing the services and not to receive financing from or provide financing to the customer. Additionally, the Company has elected the practical expedient that permits an entity to not recognize a significant financing component if the time between the transfer of a good or service and payment is one year or less.

When the Company's contracts with customers contain multiple performance obligations, the contract transaction price is allocated on a relative standalone selling price (SSP) basis to each performance obligation. The Company typically determines standalone selling price based on observable selling prices of its services.

Transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods and services to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and estimates of variable consideration. The transaction price for arrangements containing noncash consideration, is recognized at fair value of the standalone selling price of the goods or services to the customer. The amount of variable consideration included in the transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Company's contracts with customers include service level agreements that entitle the customer to receive service credits, when defined service levels are not met or outages occur. These arrangements represent a form of variable consideration, which is considered in the calculation of the transaction price. The Company estimates the amount of variable consideration at the expected value based on its assessment of legal enforceability, anticipated performance and a review of specific transactions, historical experience and market and economic conditions. The Company historically has not experienced any significant incidents affecting the defined levels of reliability and performance as required by the contracts.

When the Company's contracts with customers contain multiple performance obligations, the contract transaction price is allocated on a relative standalone selling price (SSP) basis to each performance obligation. The Company typically determines SSP based on observable selling prices of its services.

The Company excludes sales taxes and other government-assessed and imposed taxes on revenue-generating activities that are invoiced to customers from revenues.

Contract balances: The timing of revenue recognition may not align with the right to invoice the customer. The Company records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability (deferred revenue) is also recorded. If revenue is recognized in advance of the right to invoice, a contract asset (unbilled receivable) is recorded.

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Company has agreements with intermediaries that are licensed to market and sell the Company's internet services in exchange for a royalty fee on the customer revenue generated. The Company is primarily responsible for fulfilling the promise of the specified service to the customer, has discretion in establishing the price of the service, and has credit risk related to the customer transactions. As such, the Company is deemed to be the principal given that it controls the services before it is transferred to customer, therefore, the Company recognizes revenue for the gross amount of consideration to which it expects to be entitled in exchange for those services transferred.

Sales commissions paid to internal sales personnel that are incremental to the acquisition of building access rights are capitalized as deferred costs on the balance sheet when the period of benefit is determined to be greater than one year. The Company has elected to apply the practical expedient to expense sales commissions, which is generally the case for the Company, therefore, these costs are included in cost of operations on the statement of operations.

The Company periodically reviews these deferred costs to determine whether events or changes in circumstances have occurred that could affect the period of benefit of these deferred contract acquisition costs. There were no contract costs capitalized during the year ended December 31, 2023.

Accounts receivable and allowance for credit losses: Trade accounts receivable are stated at the amount the Company expects to collect. At each balance sheet date, the Company recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. Accounts receivable are evaluated individually when they do not share similar risk characteristics which could exist in circumstances where amounts are considered at risk or uncollectible. The allowance estimate is derived from a review of the Company's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company.

The Company believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. As of December 31, 2023, the allowance for credit losses was \$0.

Property and equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful service lives of the assets for customer premises equipment, datacenter assets, computers, and tools. Leasehold improvements are depreciated at the life of the lease. Building capital expenditures and capitalized construction labor are depreciated based on the term of the location's access agreement.

Leases: In February 2016, the Financial Accounting Standards Board (FASB) issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement.

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Company adopted Topic 842 on January 1, 2022, using the optional modified retrospective transition method, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Company has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Company's historical accounting treatment under ASC Topic 840, Leases.

The Company elected the package of practical expedients under the transition guidance within Topic 842, in which the Company does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Company has not elected to adopt the hindsight practical expedient, and therefore measured the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Company uses its incremental borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The adoption of the new lease standard did not materially impact consolidated net income or consolidated cash flows and did not result in a material cumulative-effect adjustment to the opening balance of members' equity.

Intangible assets: Intangible assets are comprised of IP addresses acquired with an indefinite useful life. The Company also accounts for incentive payments made to buildings to entice business in intangible assets, which are amortized over a period of 15 years.

Impairment of long-lived assets: Long-lived assets are evaluated annually for impairment.

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Income taxes: Holdings has elected to be taxed as a corporation. The Company's operations are primarily conducted within Honest, which is also a taxable corporation. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and related rates on the date of enactment.

The deferred tax assets of approximately \$5,346,000 are primarily related to net operating losses and have been fully reserved at December 31, 2023. There is no tax liability as of December 31, 2023, and no tax expense for the year ended December 31, 2023. As of December 31, 2023, loss carryforwards total approximately \$19,660,000 which are carried forward indefinitely.

Share-based compensation: The Company accounts for stock-based compensation under the provisions of the FASB ASC Topic 718 Compensation—Stock Compensation, which requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. ASC 718 also requires the stock-based compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (typically, the vesting period). The Company accounts for stock option awards granted to nonemployees in accordance with the expanded provisions of ASC 718, Compensation—Stock Compensation as provided by the Company's early adoption of Accounting Standards Update (ASU) 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The Company measures the cost of nonemployee services received in exchange for an award of equity instruments based on the grant date fair value of the award. See Note 7 for further information.

Share-based compensation costs for stock options are generally based on the fair value calculated from the Black-Scholes valuation model on the date of grant. The Black-Scholes valuation model requires the Company to estimate key assumptions such as expected volatility, expected terms, risk-free interest rates and dividend yields. The assumptions used in the Black-Scholes valuation model are as follows: expected volatility is based on an analysis of stock price data reported for a peer group of public companies; expected term is calculated using the simplified method prescribed in ASC 718; and the risk-free rate is based on the U.S. Treasury daily yield curve rates. The Company's estimates of these assumptions are primarily based on third-party valuations, peer company data, and market interest rates. The Company elected to recognize the effect of forfeitures in compensation cost when they occur. The Company has not paid and does not anticipate paying cash dividends; therefore, the expected dividend rate is assumed to be 0%.

Subsequent events: The Company has evaluated its subsequent events (events occurring after December 31, 2023) through January 7, 2025, which represents the date the consolidated financial statements were available to be issued.

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 2. Concentration of Risks

The Company is subject to a number of risks, including dependence on key individuals, uncertainty of product development and generation of revenues, dependence on outside sources of capital, risks associated with protection of intellectual property and competition. Class A Unit holders made a \$98.6 million seven-year funding commitment to the Company that expires in 2027. Of this commitment, \$78.6 million remains available to the Company as of December 31, 2023. The Company believes it has the ability to scale down operations as needed depending on financing available.

In addition, the Company has deposits with a financial institution that may, from time to time, exceed federally insured amounts. The Company believes that the credit risk related to these deposits is minimal. The Company has not experienced any losses in such accounts.

Note 3. Property and Equipment

Property and equipment are summarized as follows at December 31, 2023:

	Estimated Useful Life	Amount
Construction in progress	-	\$ 1,210,604
Building capital expenditures	Agreement Term	7,277,576
Capitalized construction labor	Agreement Term	3,123,022
Customer premises equipment	3 years	957,640
Datacenter	3 years	59,236
Computers	3 years	52,076
Tools	3 years	137,501
Furniture	2 years	30,349
		<u>12,848,004</u>
Less accumulated depreciation		(3,114,158)
		<u><u>\$ 9,733,846</u></u>

Depreciation expense for the year ended December 31, 2023, was \$1,539,332.

Note 4. Intangible Assets

As of December 31, 2023, the Company has the following amounts related to intangible assets:

	Gross Value	Accumulated Amortization	Net Carrying Value
Acquisition costs	\$ 24,491	\$ 4,229	\$ 20,262
IP addresses	88,832	12,673	76,159
	<u>\$ 113,323</u>	<u>\$ 16,902</u>	<u>\$ 96,421</u>

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 5. Leases

Operating leases: The Company leases various office and storage space which it uses in its operations under noncancelable operating leases that expire through 2026. In addition, the Company has obtained a right of access to install equipment on rooftops under noncancelable agreements that expire through 2029, however, initial terms generally consist of three or five years that automatically renew for successive periods of one to five years. These roof right agreements can include cash commitments as well as commitments to provide free internet service. The roof right expense was approximately \$459,700 for the year ended December 31, 2023, and is reflected in cost of revenues on the consolidated statement of operations.

The future minimum lease cash payments required under lease obligations are as follows: Years ending

December 31:

2024	\$	222,443
2025		205,531
2026		96,077
Future payments		<u>524,051</u>
Less amounts representing interest (ranging 0.08% - 15.90%)		<u>(46,808)</u>
Present value of future minimum lease payments		477,243
Less current maturities of lease obligations		<u>(192,803)</u>
Total long-term lease obligations	\$	<u><u>284,440</u></u>

Note 6. Profit-Sharing Plan

The Company has a profit-sharing plan (the 401(k) Plan) pursuant to Section 401(k) of the Internal Revenue Code, which covers substantially all employees with one month of service and who have attained 21 years of age. The Plan provides a 1% match for participants in the 401(k) Plan. The Company contributed approximately \$31,892 for the year ended December 31, 2023.

Note 7. Share-Based Compensation

Honest established the 2021 Stock Option Plan (Plan). The Plan provided for grants of Honest stock options and stock awards to certain employees and service providers of the Company. In connection with the legal reorganization on July 7, 2021, all Honest shares and options were exchanged for Class B Units of Holdings. Once the Company assumed the Plan, the Plan may no longer be used for future awards.

Class B Units were granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally contain vesting terms based on one to three years of continuous service and have a 10-year contractual term. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

Class B Units become vested as defined in the option agreements if the employee remains employed with the Company. Additionally, for the units, upon the employee ceasing his or her employment with the Company, the employee's unvested Time-Based Options will be forfeited.

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 7. Share-Based Compensation (Continued)

Class B Units may allow for exercise of the units prior to being fully vested provided that the units acquired on exercise will be treated as unvested and subject to a right of repurchase by the Company.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the following table. The Company uses historical volatility data for expected volatility and estimates the expected term of its options based on the historical life of the Company's options. The expected term represents an estimate of the time options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following assumptions were used for 1,802,900 options awarded under the Plan:

Expected annual dividend yield	0.00%
Expected volatility	19.19%
Risk-free rate of return	0.62% – 3.15%
Expected option term (years)	6

A summary of the Class B Units activity under the Plan as of December 31, 2023 is as follows:

Options	Units	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 31, 2022	1,658,064	\$ 0.07	2
Granted	-	-	
Exercised	(46,549)	0.07	
Forfeited or expired	(6,410)	0.07	
Outstanding at December 31, 2023	<u>1,605,105</u>	<u>\$ 0.07</u>	<u>1</u>
Options exercisable and vested at December 31, 2023	<u>1,493,852</u>	<u>\$ 0.07</u>	<u>1</u>

The Company recognized \$5,888 in compensation expense related to Class B Units for the year ended December 31, 2023. The weighted-average grant-date fair value of units granted under the Plan was \$0.17 per option.

Honest Networks Holdings, LLC and Subsidiary (A Limited Liability Company)

Notes to Consolidated Financial Statements

Note 7. Share-Based Compensation (Continued)

A summary of the status of the Company's nonvested shares as of December 31, 2023 is presented below:

Nonvested Units	Units	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2022	470,929	\$ 0.17
Granted	-	-
Vested	(359,676)	0.17
Forfeited	-	-
Nonvested at December 31, 2023	111,253	\$ 0.17

Note 8. Members' Interest

Honest Networks Holdings, LLC (Holdings) has authority to issue 105,000,000 Class A Units, 40,160,000 Class B Units, and 1,000,000 Class Z Units. At December 31, 2023, there were 20,000,000 Class A Units, 38,448,270 Class B Units, and 418,400 Class Z Units issued and outstanding. Class Z Units are nonvoting.

Class A Units have distribution preference over Class B Units and Class Z Units. Class B Units are eligible to share distributions only if all Class A Units have received minimum distributions, as defined in the agreements. Class Z Units are eligible to share distributions only if all Class B Units have received minimum distributions, as defined in the agreements.

Members contributed an additional \$7 million of capital to the Company in June 2023 in exchange of 3,000,000 Class A Units of the Company.

In 2021, Honest established the Equity Incentive Plan. The Plan provided for grants of Honest Class Z Units to certain employees of the Company. The Company believed that such awards better align the interests of its employees with those of its members. There were 109,500 Class Z Units issued to Company employees in 2023 with Time-Based vesting. Class Z Units were issued at an estimated de minimis fair value, therefore, no compensation was recorded related to the issuance or vesting of these Class Z Units.

On July 7, 2021, Holdings and a merger sub entered into a merger agreement with Honest resulting in all outstanding shares of Honest common and preferred stock being converted into the right to receive Class B Units of Holdings.

Note 9. Commitments and Contingencies

The Company is subject to routine litigation incidental to its business. The Company records a liability when it is both probable that a loss has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine the outcome and the estimated amount of a loss related to such matters. Management believes that there are no claims or assessments outstanding that would materially affect the results of operations or financial position of the Company.