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Cake Insure, Inc. and Subsidiaries dba Cake  
Holding Co.

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**Consolidated Financial Report**  
**December 31, 2023**

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## Independent Auditor's Report

To the Board of Directors  
Cake Insure, Inc. and Subsidiaries  
dba Cake Holding Co.

### **Opinion**

We have audited the consolidated financial statements of Cake Insure, Inc. and Subsidiaries dba Cake Holding Co. (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023 and 2022 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated 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 *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Company and to meet our 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.

### **Emphasis of Matter**

As described in Note 4 to the consolidated financial statements, the Company acquired 100 percent of the outstanding stock of Attune Holdings, LLC. Therefore, in the current year, the financial statements are presented as consolidated financial statements, while in the prior year they were stand-alone statements. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are issued or available to be issued.

To the Board of Directors  
Cake Insure, Inc. and Subsidiaries  
dba Cake Holding Co.

***Auditor's Responsibilities for the Audits of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 audits 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 consolidated financial statements.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 consolidated 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

*Plante & Moran, PLLC*

May 1, 2024

## Cake Insure, Inc. and Subsidiaries dba Cake Holding Co.

### Consolidated Balance Sheet

	December 31, 2023 and 2022	
	2023	2022
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,731,908	\$ 2,500,934
Restricted cash	22,558,524	-
Receivables:		
Accounts receivable - Related party - Net	74,670	76,511
Interest income receivable	5,124	7,863
Premiums and commissions receivable - Net	44,657,909	-
Other current assets	998,423	2,127
Total current assets	73,026,558	2,587,435
<b>Acquired and Internally Developed Technology - Net</b>	23,514,418	-
<b>Goodwill</b>	17,814,644	-
<b>Other Intangible Assets - Net</b>	1,615,000	-
Total assets	<b>\$ 115,970,620</b>	<b>\$ 2,587,435</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable:		
Premiums and commissions payable	\$ 59,170,355	\$ -
Accounts payable - Related party	451,581	80,618
Ceded commissions payable	12,363,447	-
Other accounts payable	5,383,798	-
Deferred revenue	2,358,826	-
Contract liability - Related party	168,978	195,026
Accrued expenses:		
Payroll taxes payable	287,470	-
Accrued compensation	5,460,278	-
Other accrued liabilities	14,350	7,300
Total current liabilities	85,659,083	282,944
Total liabilities	85,659,083	282,944
<b>Shareholders' Equity</b>		
Common stock no par value; 20,000,000 shares authorized; 10,000,000 shares issued and outstanding at December 31, 2023; 10,000,000 shares authorized; 222,222 shares issued and 0 shares outstanding at December 31, 2022	50,000,000	111,111
Preferred stock \$5.00 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2022	-	10,000,000
Treasury stock	-	(111,111)
Additional paid-in capital	37,929,274	4,326,364
Accumulated deficit	(57,617,737)	(12,021,873)
Total shareholders' equity	30,311,537	2,304,491
Total liabilities and shareholders' equity	<b>\$ 115,970,620</b>	<b>\$ 2,587,435</b>

## Cake Insure, Inc. and Subsidiaries dba Cake Holding Co.

# Consolidated Statement of Operations

Years Ended December 31, 2023 and 2022

	2023	2022
<b>Revenue</b>		
Commissions	\$ 17,373,369	\$ -
Service fees - Related party	732,715	794,083
Service fees	4,703,089	-
Total revenue	22,809,173	794,083
<b>Sub-producer Commission Expense</b>	23,372,585	-
<b>Revenue - Net of commission expense</b>	(563,412)	794,083
<b>Operating Expenses</b>		
General and administrative expenses	7,339,142	471,363
Employee compensation and benefits	26,573,089	22,050
Technology data and software	8,822,040	12,461
Depreciation and amortization expense	2,690,670	-
Total operating expenses	45,424,941	505,874
<b>Operating (Loss) Income</b>	(45,988,353)	288,209
<b>Nonoperating Income</b>		
Interest income	309,239	-
Other income	83,250	34,263
Total nonoperating income	392,489	34,263
<b>(Loss) Income - Before income taxes</b>	(45,595,864)	322,472
<b>Income Tax Expense (Recovery)</b>	-	-
<b>Consolidated Net (Loss) Income</b>	<b>\$ (45,595,864)</b>	<b>\$ 322,472</b>

## Cake Insure, Inc. and Subsidiaries dba Cake Holding Co.

### Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2023 and 2022

	Common Stock	Preferred Stock	Treasury Stock	Additional Paid- in Capital	Accumulated Deficit	Total
<b>Balance</b> - January 1, 2022	\$ 111,111	\$ 10,000,000	\$ (111,111)	\$ 4,326,364	\$ (12,344,345)	\$ 1,982,019
Net income	-	-	-	-	322,472	322,472
<b>Balance</b> - December 31, 2022	111,111	10,000,000	(111,111)	4,326,364	(12,021,873)	2,304,491
Net loss	-	-	-	-	(45,595,864)	(45,595,864)
Issuance of common stock	40,000,000	-	-	-	-	40,000,000
Conversion of preferred stock to common stock	10,000,000	(10,000,000)	-	-	-	-
Retirement of treasury stock	(111,111)	-	111,111	-	-	-
Additional capital contributions	-	-	-	33,602,910	-	33,602,910
<b>Balance</b> - December 31, 2023	<b>\$ 50,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 37,929,274</b>	<b>\$ (57,617,737)</b>	<b>\$ 30,311,537</b>

## Cake Insure, Inc. and Subsidiaries dba Cake Holding Co.

### Consolidated Statement of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
<b>Cash Flows from Operating Activities</b>		
Net (loss) income	\$ (45,595,864)	\$ 322,472
Adjustments to reconcile net (loss) income to net cash and cash equivalents from operating activities:		
Bad debt expense	79,667	-
Depreciation and amortization expense	2,690,670	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable - Related party - Net	(77,826)	7,612
Interest income receivable	2,739	(7,844)
Premiums and commissions receivable - Net	(13,163,830)	-
Other current assets	(34,719)	13
Premium and commissions payable	13,431,041	-
Accounts payable - Related party	297,022	(9,783)
Other accounts payable	(12,786,587)	-
Deferred revenue	267,907	-
Ceded commissions payable	12,363,447	-
Payroll taxes payable	287,470	-
Contract liability - Related party	(26,048)	(20,630)
Accrued compensation	4,092,843	-
Accrued and other liabilities	7,050	(9,087)
Net cash and cash equivalents (used in) provided by operating activities	(38,165,018)	282,753
<b>Cash Flows from Investing Activities</b>		
Internal-use software development costs	(770,088)	-
Acquisition of Attune - Net of cash acquired	(9,878,306)	-
Net cash and cash equivalents used in investing activities	(10,648,394)	-
<b>Cash Flows from Financing Activities</b>		
Issuance of common stock to parent	40,000,000	-
Contributions of additional paid-in capital	33,602,910	-
Net cash and cash equivalents provided by financing activities	73,602,910	-
<b>Net Increase in Cash, Cash Equivalents, and Restricted Cash</b>	24,789,498	282,753
<b>Cash, Cash Equivalents, and Restricted Cash - Beginning of year</b>	2,500,934	2,218,181
<b>Cash, Cash Equivalents, and Restricted Cash - End of year</b>	<b>\$ 27,290,432</b>	<b>\$ 2,500,934</b>
<b>Supplemental Cash Flow Information</b>		
Cash and cash equivalents	\$ 4,731,908	\$ 2,500,934
Restricted cash	22,558,524	-

**Notes to Consolidated Financial Statements**

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**December 31, 2023 and 2022**

**Note 1 - Nature of Business**

Cake Insure, Inc. and Subsidiaries dba Cake Holding Co. (the “Company” or Cake), a Colorado corporation, was incorporated on September 20, 2017 (inception). The Company is a subsidiary of Pinnacol Assurance (Pinnacol) and helps Colorado’s small businesses quote and purchase a workers’ compensation insurance policy from Pinnacol. Cake created a digital platform designed to market, underwrite, and service small direct policyholders with annual premiums of less than approximately \$10,000 that are not considered high risk. Accounts that exceed annual premiums of approximately \$10,000 or are more complex are referred back to Pinnacol.

The Company’s digital platform, launched on October 10, 2017, is a website that is accessible on both mobile devices and desktops. It provides policyholders with a simple digital experience that offers easy policy management; elimination of paper forms and signatures; electronic certificates of insurance and notifications; live online support; and a text message chatbot that allows policyholders quick access to status information, certificate requests, and bill payments. The Cake platform has allowed Pinnacol to retire its existing direct application platform and has shortened the time for most policyholders to quote and purchase a policy to less than five minutes.

On January 4, 2023, Cake purchased 100 percent of the outstanding membership interest of Attune Holdings, LLC (Attune). Attune is a Delaware-domiciled limited liability company conducting business as an insurance producer licensed in all 50 states and the District of Columbia.

Attune is a licensed property/casualty insurance producer. Attune principally acts as an agent for insurance companies. For some insurance products, Attune may act as a licensed surplus lines producer with authority from an eligible surplus lines insurer. Attune maintains insurance producer and surplus lines insurance producer licenses in all 50 states and the District of Columbia.

Attune represents insurance companies in the solicitation and sale of insurance products. Attune’s business is generated from retail, wholesale and digital brokers (often called producers), who represent insured clients.

Attune owns and maintains the Attune Portal, a proprietary online portal that may be accessed by licensed producers having a producer contract with or other permission from Attune. Access to and use of the Attune Portal permits producers to make submissions and complete insurance transactions with Attune on behalf of their clients. Attune maintains a customer care center for the purpose of providing assistance to producers and other third parties by responding to business inquiries and assisting with insurance transactions not completed through the Attune Portal.

Attune does not accept claim notices or service of legal process on behalf of the insurance companies it represents, nor does it adjust claims. Attune is not a claim service company.

Attune receives compensation in the form of commissions paid by an insurance company, calculated as a percentage of premiums, pursuant to separately negotiated arrangements with the insurance company.

These commissions are for the service Attune performs in placing and servicing insurance policies on the insurance company’s behalf. Some of the servicing of policies include tracking premium receivables, invoicing timely on an installment schedule and maintaining software used to track policies. A portion of the commission is paid to retail, wholesale and digital brokers that represent the insured carriers.

**Note 2 - Significant Accounting Policies**

***Principles of Consolidation***

The consolidated financial statements include the accounts of Cake Holding Co and its wholly owned subsidiaries, Attune Holdings, LLC; Attune Underwriting Services; and Everpeak Insurance Services. All significant intercompany transactions and balances have been eliminated upon consolidation.

**Notes to Consolidated Financial Statements**

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**December 31, 2023 and 2022**

**Note 2 - Significant Accounting Policies (Continued)**

***Risks and Uncertainties***

The Company is subject to various risks and uncertainties frequently encountered by companies in the early stages of development. Such risks and uncertainties include, but are not limited to, its limited operating history, competition from other software providers, limited access to additional funds, and dependence on key personnel. To address these risks, the Company must, among other things, develop its customer base; implement and successfully execute its business and marketing strategy; develop follow-on products; provide superior customer service; and attract, retain, and motivate qualified personnel. There can be no guarantee that the Company will be successful in addressing these or other such risks.

***Liquidity and Management's Plans***

The Company has incurred a net loss of \$45,595,864 in 2023 and negative cash flows from operations. These conditions present certain liquidity challenges for the Company in the foreseeable future. Pinnacol, the Company's parent, has made a guarantee to Cake to provide funding to support its strategic initiatives totaling \$90 million, which includes funding Cake's near-term operating losses. Pinnacol has existing commitments remaining of approximately \$56 million to cover expected net losses in 2024 and 2025. Management has concluded that the guarantee provides the Company with sufficient liquidity through at a minimum May 2025 to fund its expected obligations.

***Basis of Presentation***

The consolidated financial statements of the Company have been prepared on the basis of generally accepted accounting principles (GAAP).

***Cash and Cash Equivalents***

The Company considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The Company's cash equivalents consist of highly liquid money market funds. The carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates fair value due to the short-term nature of these investments. The total amount of bank deposits (checking and savings accounts) that was insured by the FDIC at December 31, 2023 was \$267,498. Certain cash balances exceed the federal depository insurance limit of \$250,000. The Company's cash is only insured up to the federal depository insurance limit.

***Restricted Cash***

In its capacity as an insurance producer, Attune collects premiums from its clients and, after deducting its commission and/or fees, remits these premiums to the respective insurance companies. Unremitted insurance premiums are held in a fiduciary capacity until disbursed by Attune and these funds cannot be used for general operating purposes. At December 31, 2023, fiduciary assets include cash of \$22,558,524, which is included in restricted cash on the consolidated balance sheet.

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

**Note 2 - Significant Accounting Policies (Continued)**

***Premiums and Commissions Receivable, Premiums and Commissions Payable, and Other Accounts Payable***

The Company's trade accounts receivable balance consists of amounts due from policyholders, including amounts on installment plans for premiums and commissions from insurance carriers. An allowance for credit losses is established for amounts expected to be uncollectible over the contractual life of the receivables. The Company collectively evaluates trade receivables to determine the allowance for credit losses based on expected cancellations which is determined by historical results. The Company calculates the allowance using an expected loss model that considers the Company's actual historical loss rates adjusted for current economic conditions reasonable and supportable forecasts. The Company considers economic conditions that would impact its policyholders' ability to pay premiums when making adjustments for reasonable and supportable forecasts. Uncollectible amounts are written off against the allowance for credit losses in the period they are determined to be uncollectible. Recoveries of amounts previously written off are recognized when received. Prior to the adoption of the accounting standard described in Note 3, the Company considers current events and trends and provides an allowance for amounts expected to be uncollectible.

For certain carriers, the Company collects the premiums from policies written and will remit to the carrier net of commissions. These premiums are included in premiums payable on the consolidated balance sheet. For digital carriers, the carrier is responsible for the collection of premiums from policyholders, and commissions will be remitted back to the Company upon collection of the premium. Attune also contracts with digital carrier customers with a standard contract. The main difference between digital carrier partner contracts and those previously noted is that digital carrier contracts do not grant Attune the authority to bind insurance policies or collect payment on behalf of the carriers. The Company pays commissions to sub-producers, which have originated the business and commission or are included in the commissions payable on the consolidated balance sheet. Other accounts payable consist of accrued invoices from vendors.

***Major Customers***

Approximately 61 percent of the Company's revenue is derived from commissions revenue obtained through writing policies for a single carrier. The Company has an exclusive program administration agreement in place to represent the insurance company in the solicitation and sale of insurance products. Loss of this contract could result in a loss of sales, which could adversely affect operations.

***Intangible Assets***

Acquired intangible assets subject to amortization are stated at cost and are amortized using the straight-line method over the estimated useful lives of the assets. Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually.

The Company also capitalizes significant costs incurred in the development of software for internal use, including the costs of the software, materials, consultants, interest, payroll, and payroll-related costs for employees incurred in developing internal use computer software once final selection of the software is made. Costs incurred prior to the final selection of software and costs not qualifying for capitalization are charged to expense.

	<u>Useful Life - Years</u>
Capitalized software development costs	5-10
Distribution network	14
Trade name	10

## Notes to Consolidated Financial Statements

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December 31, 2023 and 2022

### **Note 2 - Significant Accounting Policies (Continued)**

#### ***Goodwill***

The recorded amount of goodwill from the business combination described in Note 4 is based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized but rather is assessed at least on an annual basis for impairment.

The Company adopted Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment (Accounting Standards Codification (ASC) 350)*, which changed the guidance on goodwill impairment. Under the guidance, the qualitative assessment of the recoverability of goodwill remains the same, but the second step of the two-step quantitative test, which required calculation of the implied fair value of goodwill, has been eliminated. Instead, an impairment charge is recognized when the carrying value of a reporting unit exceeds its fair value. Any excess of carrying value over fair value is written down as an impairment. This evaluation is performed annually, during the fourth quarter or more frequently if facts and circumstances warrant. An impairment loss would be recognized if, and to the extent that, the carrying value of goodwill exceeded the implied value.

No impairment charge was recognized during the year ended December 31, 2023. It is reasonably possible that management's estimates of the carrying amount of goodwill will change in the near term.

#### ***Revenue Recognition***

The core principle of Accounting Standards Codification 606, *Revenue from Contracts with Customers*, is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount to which the company expects to be entitled for the goods or services.

#### **Third-party Agency Services**

Attune represents insurance companies in the solicitation and sale of insurance products and receives compensation in the form of commissions paid by an insurance company. Revenue is earned on the policy effective date of each underlying policy net of an estimate for expected cancellations and credit losses which is projected based on historical policy cancellation trends and credit losses. Revenue is presented as commission revenue on the consolidated statement of operations.

Attune pays commissions to sub-producers, calculated as a percentage of premiums, pursuant to arrangements with each producer. Sub-producer commission expense is presented as sub-producer commissions on the consolidated statement of operations.

#### **Identification of the Contract**

The Company contracts with customers (insurance carriers) with a standard contract or program administration agreement (PAA). All contracts are entered into on an agency basis in which Attune acts as an agent for insurance carriers in performing marketing, solicitation and receipt of insurance applications, acceptance, rating, quoting, binding of policies, and billing and collection of premiums and other amounts due on policies for the insurance carriers. Attune's platform is used by a network of sub-producers to receive quotes and bind policies with Attune's insurance carrier partners.

All contracts are entered into on an Agency basis in which the Company acts as an agent for insurance carriers in soliciting and transmitting quotes and submitting applications/binder requests for products offered by the digital carrier partners.

**Notes to Consolidated Financial Statements**

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**December 31, 2023 and 2022**

**Note 2 - Significant Accounting Policies (Continued)**

**Determining the Performance Obligations**

The Company has determined it has a single performance obligation to perform agency services on behalf of the insurance carrier. The insurance partner agreements include soliciting, transmission of quotes, accept, rate, bind, decline, write, or endorse policies and collect premiums and other amounts due on the policies. The Company does not perform any claims handling assistance or other significant services to the policyholder on behalf of the insurance company underwriting the insurance policies, as these are typically handled through the sub-producers. Any activities performed on behalf of the insurance carrier after the policy effective date are generally perfunctory and insignificant. Installment billings provided to the policyholder after the policy effective date are considered a separate contract with the policyholder in which the Company charges additional fees to cover the cost of these administrative activities, which are described further below.

**Determination of the Transaction Price**

The Company receives a stated commission from the insurance carriers based on the type of underlying business and whether the business is considered new or renewal business, as established in the producer agreement. The stated commission is subject to variable consideration, which the Company must estimate, as further described below.

The underlying insurance policies on which the Company's commission is based are subject to cancellation by the policyholder prior to the effective date, cancellation by the insurance carrier for non-payment, adjustments to coverage changes made subsequent to the binding of the policy and the policy effective date, and other circumstances that can affect the amount of commission income the Company is expected to be entitled to. Each of these circumstances can result in future downward adjustments to expected amounts receivable for commission income, which must be estimated at the time of binding the policy. The Company estimates the expected amount to be received and records an allowance for variable consideration based on historical patterns and current trends and circumstances.

The Company's commission is also subject to a sliding scale commission adjustment based on the underwriting results of the related book of business being underwritten. The sliding scale provision of the contract with one of the Company's carriers can result in amounts due back to the carrier for underwriting results that are in excess of established loss ratios. The Company makes an estimate based on all available data for any amounts expected to be due back to the carrier under the sliding scale commission provision and records a liability and a reduction to commission income at each reporting period.

The Company has also entered into an agreement with one of the insurance carriers, which guarantees a minimum volume of business placed and supports the insurance carriers minimum deposit premiums with its reinsurer. In the event the volume of business is not sufficient to cover the required deposit premium, the Company is required to fund the shortfall and make a payment to the insurance carrier. The Company also makes an estimate based on all available data for any amounts expected to be due back to the carrier under the excess of loss minimum volume of business required and records a liability and a related reduction to commission income at each reporting period for any estimated shortfall.

**Timing of Recognition of Revenue**

Under current business practice, the policy bind date is the point at which a contract is created, while the policy effective date drives the point at which revenue is recognized as the Company has no significant remaining obligation to the insurance carrier. Any amounts recorded prior to the policy effective date are recorded as deferred revenue until the policy effective date passes. Once the policy effective date occurs, all previously recorded deferred revenue is recognized at that point in time.

## Notes to Consolidated Financial Statements

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December 31, 2023 and 2022

### **Note 2 - Significant Accounting Policies (Continued)**

#### **Other Revenue and Fees**

Separate from the single performance obligation to the customer for which commission revenue is recognized, the Company is also allowed to assess miscellaneous agent fees to the policyholder in accordance with the PAA. These fees are as follows:

- Installment fees - Charged to policyholders for collecting premiums on an installment basis, which is a flat fee (\$5 per installment)
- Technology fees - Charged on policies for the binding process/service fee, which is fee revenue exclusively to the Company. Technology fees are currently 6 percent of written premium at the time of bind or \$350, whichever is lower.
- Late fees
- Reinstatement fees
- Insufficient funds

All respective fees above are billed and recognized as the Company provides the related services generally on a monthly or quarterly basis.

#### **Related Party Revenue**

The Company's revenue-generating activities as an insurance agent on behalf of its parent include marketing, underwriting, and servicing of small direct workers' compensation policies for Pinnacol. The Company provides non-claims-related servicing for certain accounts (certificates, policy updates, general support, etc.). The servicing may extend through the life of the account. The Company receives revenue in the form of program administration fees in exchange for providing the aforementioned services to policyholders of the customers. The fees are as follows:

- Flat fee - Nonrefundable amount paid per policy referred to the contracted insurer. Because the Company targets small business direct customers with annual premiums of approximately less than \$10,000, the flat fee was established to ensure the Company could cover the administrative costs of a policy, irrespective of policy size, while maintaining reasonable direct commission rates. This fee is recognized over the life of the policy as a single performance obligation with the direct commission fees received once the policy effective date has occurred. If the policy cancels prior to the end date of the contract, the remaining amount of the initial flat fee is recognized immediately. If the policy cancels prior to the effective date of the contract, the Company is not entitled to receive the fee and, therefore, will not recognize any revenue.
- Direct commissions - Calculated as a percentage of the total premium of each policy referred to the contracted insurer. These commissions are recognized over the life of the policy as a single performance obligation, with the flat fee received once the policy effective date has occurred. If the policy cancels prior to the end date of the contract, any prepaid amount is not recognizable as revenue and refunded to the contracted insurer. If the policy cancels prior to the effective date of the contract, the Company is also not entitled to receive additional commission and, therefore, provides an adequate allowance of such variable consideration such that the likelihood of a future significant reversal of revenue is remote.

## Notes to Consolidated Financial Statements

December 31, 2023 and 2022

### Note 2 - Significant Accounting Policies (Continued)

- Originated policy fees - Calculated as a percentage of the total premium of each policy originated by the Company but sold and written by the contracted insurer. For these policies, the Company performs marketing but neither underwrites nor binds the policy and does not provide any additional services after policy issuance. The fees are recognized at a point in time at the inception of the policy as a single performance obligation. If the policy cancels prior to the effective date of the contract, the Company is not entitled to receive any fees and, therefore, provides an adequate allowance of such variable consideration such that the likelihood of a future significant reversal of revenue is remote.

Services provided by the Company may include full administration of the policy, including, but not limited to, access to the customer care department initial form work, including the creation of a quote and policy, availability of the online chat feature, policy audit functions throughout the life of the policy, and use of the digital platform. The application of ASC 606 to the Company's insurance business incorporates the following considerations:

- Cake has a contract with the insurer to provide the above-mentioned services for the insurer's policyholders during the binding of the policies and over the course of the entire policy's effective period in exchange for both a flat fee and direct commissions.
- The Company has determined that only one distinct and separately identifiable performance obligation exists due to the highly interrelated nature of the activities performed for the policyholders of the customer in exchange for a flat fee and direct commissions under the contract.
- The transaction price noted above includes a fixed flat fee and a variable fee currently calculated as a percentage of the total premium of each policy referred to the contracted insurer. The variable fee has not been constrained due to the insignificant amount of historical adjustments related to cancellations.
- The Company generally provides a stand-ready service for accounts referenced above over the one-year policy period present in its contracts to provide services to the policyholders of the customer, and policyholders of the customer will have access to and use of the Company's available services throughout the life of the policy. Accordingly, the entire amount of fixed and variable consideration is recognized ratably over the life of the policy.
- As noted above, policyholders of the customer will have access to and use of the Company's available services throughout the life of the policy. As a result, the Company recognizes revenue evenly over the life of the policy.
- For certain policies of the insurer, the Company may procure a new policyholder for the customer in exchange for originated policy fees. The service is performed solely at inception of the policy and will be the only service the Company will provide. Thus, originated policy fees are a distinct performance obligation satisfied at a point in time when the policy is originated and, accordingly, are recognized at inception of the policy. During 2023 and 2022, the Company recognized \$151,133 and \$163,784, respectively, of originated policy fees within service fees - related party.

The Company records a contract liability for consideration received for a revenue-related activity for which the revenue has not yet been recognized. All contract liabilities at December 31, 2023 and 2022 totaling \$168,978 and \$195,026, respectively, relate to the insurance agency business; these liabilities have been recognized during the years ended December 31, 2023 and 2022.

The opening balance of accounts receivable - related party at January 1, 2022 was \$84,123, and the opening balance of contract liability - related party was \$0.

## Notes to Consolidated Financial Statements

December 31, 2023 and 2022

### Note 2 - Significant Accounting Policies (Continued)

There are no acquisition costs currently incurred in connection with the Company's contracts. Additionally, there are no material fulfillment costs that are incurred due to the highly automated nature of the Company's policy application software platform.

#### ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Allocated Costs, Management Fees, and Other Costs Incurred by Pinnacol for the Benefit of the Company***

As described in Note 6, the Company has entered into a master services agreement with Pinnacol, which provides for managerial and administrative services at cost. In addition, under the agreement, all vendor costs that are paid by Pinnacol for the benefit of the Company are reimbursed. Pinnacol charges direct payroll costs to the Company and any allocated costs outside of the shared services agreement described previously, such as continuing software development costs for added features, enhancements, etc. through the date of transfer and sale to Pinnacol in 2020. The Company reflects all costs of doing business, which are separately identifiable and determinable in its stand-alone financial statements; however, the Company's operating results may have been substantially different had it operated as an independent stand-alone entity. The related party nature of the management fees, allocated costs, and other costs incurred by Pinnacol should be taken into account when reviewing these stand-alone financial statements.

#### ***Software Development Costs***

The Company accounts for costs incurred in the development of computer software as software research and development costs until the preliminary project stage is completed. Direct costs in the development of software are capitalized after the preliminary project stage is completed during the application development stage once management has committed to funding the project. The Company ceases capitalization of development costs once the software has been substantially completed and is ready for its intended use. Software development costs are amortized over their estimated useful lives of four years and are included in research and development on the consolidated statement of operations. Costs associated with upgrades and enhancements that result in additional functionality are capitalized.

The Company had \$770,088 of internal use capitalized software development costs during the year ended December 31, 2023. Amortization expense for capitalized software development costs was \$25,670 for the year ended December 31, 2023.

#### ***Income Taxes***

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company's temporary differences result primarily from net operating losses and book-to-tax basis differences relating to recognition of contract liabilities and amortization expense on capitalized software development costs.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

**Note 2 - Significant Accounting Policies (Continued)**

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including May 1, 2024, which is the date the financial statements were available to be issued.

**Note 3 - Recently Adopted Accounting Standard**

As of January 1, 2023, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses*, which changed how entities account for credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance requires entities to consider reasonable and supportable forecasts of future economic conditions in the estimate of current expected credit losses, and no longer permits the use of the incurred loss model. The adoption did not result in a material effect on the consolidated financial statements as of January 1, 2023.

**Note 4 - Business Combinations**

On January 4, 2023, the Company acquired 100 percent of the outstanding membership interest of Attune Holdings, LLC. The primary reason for the acquisition was to broaden managing general agent functions and leverage the distribution network established by Attune.

The following table summarizes the fair value of the consideration transferred as part of the acquisition of Attune:

Cash	\$ 27,997,500
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The following table summarizes the acquisition-date fair values of the assets acquired and liabilities assumed:

Cash and cash equivalents	\$ 18,119,194
Premiums and commissions receivable - Net	37,316,144
Prepaid expenses and other current assets	961,577
Identifiable intangible assets	27,050,000
Financial liabilities	<u>(73,264,059)</u>
Total identifiable net assets	10,182,856
Goodwill	<u>17,814,644</u>
Total	<u>\$ 27,997,500</u>

The fair value of financial assets includes accounts receivable with a fair value of \$37,316,144. The gross amount due totals \$39,465,789, of which \$2,149,645 is expected to be uncollectible.

Acquisition-related costs, which include legal, accounting, and valuation fees, totaled \$345,889 and have been included in general and administrative expenses in the accompanying consolidated statement of operations.

The acquired goodwill is expected to be tax deductible.

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

**Note 5 - Acquired and Developed Intangible Assets and Goodwill**

Intangible assets of the Company at December 31, 2023 are summarized as follows:

	Gross Carrying Amount	Accumulated Amortization	Weighted- average Useful Life - Years
Amortized intangible assets:			
Attune purchased software	\$ 25,300,000	\$ 2,530,000	10
Broker relationships	1,400,000	100,000	14
Trade name	350,000	35,000	10
Workers compensation MGA software	770,088	25,670	5
	<u>\$ 27,820,088</u>	<u>\$ 2,690,631</u>	
Total amortized intangible assets			

Amortization expense for intangible assets totaled \$2,690,670 and \$0 for the years ended December 31, 2023 and 2022, respectively.

Estimated amortization expense for the years ending December 31 is as follows:

Years Ending	Amount
2024	\$ 2,819,018
2025	2,819,018
2026	2,819,018
2027	2,819,018
2028	2,793,348
Thereafter	<u>11,059,998</u>
Total	<u>\$ 25,129,418</u>

The recorded amount of goodwill at December 31, 2023 is \$17,814,644.

**Note 6 - Related Party Transactions**

The following is a description of transactions between the Company and related parties:

***Master Services Agreement***

The Company has entered into an amended master services agreement with Pinnacol effective January 1, 2019, which extends on a month-to-month basis unless terminated by agreement of both parties. The master service agreement was amended and restated on March 16, 2023. The Company pays actual salary, benefits, and other employee-related costs to Pinnacol for personnel services, including part-time finance, legal, human resources, marketing, and other overhead-type services. Under this agreement, actual costs are allocated to the Company based upon the utilization of Pinnacol employees. For the years ended December 31, 2023 and 2022, the total related party management fees were \$915,528 and \$271,030, respectively, which are included within other general and administrative expenses on the consolidated statement of operations. The Company also reimburses Pinnacol for costs incurred to provide full-time services of Cake's dedicated personnel and any out-of-pocket costs incurred by Pinnacol for payments made to vendors providing goods or services to the Company. The fees are payable to Pinnacol on or before the 15th of the subsequent month in which services were provided. As of December 31, 2023 and 2022, the Company owed Pinnacol \$97,142 and \$29,221, respectively, for management fees and \$280,751 and \$8,441, respectively, for reimbursable costs.

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

**Note 6 - Related Party Transactions (Continued)**

***Program Administrator Agreement***

The Company has entered into a program administrator agreement with Pinnacol where the Company receives program administration fees. The fees are earned based upon the insurance risks accepted by Pinnacol and are calculated as a percentage of the policy's annual premium, depending on the type of referral source, in addition to a flat fee. Program administration fees for policies in which Pinnacol refers to the Company vary from policies in which the Company sells without a referral from Pinnacol. For the years ended December 31, 2023 and 2022, total related party administrator fees paid that are distinct and separately identifiable were \$581,582 and \$630,299, respectively. As of December 31, 2023 and 2022, related party administrator fees due to the Company were \$74,670 and \$76,511, respectively.

The Company also receives program administration fees for policies originated by the Company but sold and written by Pinnacol. The fees in the first year are earned based upon the insurance accepted by Pinnacol and are calculated as a percentage of the policy's annual premium. For all subsequent years of the policy, fees earned are calculated at a lower percentage of the policy's annual premium. For the years ended December 31, 2023 and 2022, total related party administrator fees paid that are originated were \$157,220 and \$163,784, respectively.

The Company collects premiums directly from policyholders on behalf of Pinnacol. As of December 31, 2023 and 2022, the Company owed Pinnacol \$73,688 and \$42,956, respectively, for premiums collected.

***Software License Agreement***

Cake developed intellectual property including program source code and system configuration for the purpose of establishing a software and data platform to be used for the marketing and servicing of workers' compensation insurance to small businesses. The Company entered into a software licensing agreement with Pinnacol on February 29, 2020 where Cake assigned the intellectual property to Pinnacol and Cake obtains a license to use the intellectual property for purposes particular to Cake. Pinnacol has granted to Cake a royalty-free, transferable license to use and create derivative works, improvements and other modifications to the software. All right, title, and interest to any derivative works and improvements that are made by Cake remain with Pinnacol.

On February 29, 2020, the Company assigned the intellectual property associated with the capitalized software development costs to Pinnacol and retained an exclusive license to utilize the software to provide services to existing and future customers in its target market.

**Note 7 - Income Taxes**

The components of the income tax provision included in the consolidated statement of operations are all attributable to continuing operations and are detailed as follows:

	2023	2022
Current income tax expense	\$ -	\$ 78,941
Deferred income tax recovery	(11,160,044)	-
Recovery from net operating loss carryforward	-	(78,941)
Change in valuation reserve	11,160,044	-
Total income tax expense (recovery)	\$ -	\$ -

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

**Note 7 - Income Taxes (Continued)**

The details of the net deferred tax asset (liability) are as follows:

	2023	2022
Deferred tax assets:		
Allowance for doubtful accounts	\$ 621,870	\$ 850
Bonus accrual	1,133,395	-
Intangible assets	198,336	-
Net operating loss and tax credit carryforward	12,849,590	2,934,684
	<u>14,803,191</u>	<u>2,935,534</u>
Gross deferred tax assets		
	14,803,191	2,935,534
Valuation allowance recognized for deferred tax assets	<u>(14,534,259)</u>	<u>(2,935,534)</u>
Net deferred tax assets	268,932	-
Deferred tax liabilities - Goodwill amortization	<u>(268,932)</u>	-
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2023 and 2022, the Company had federal net operating loss carryforwards of approximately \$52,500,000 and \$11,990,000, respectively, and state net operating loss carryforwards of approximately \$52,500,000 and \$11,990,000, respectively, which may be used to offset future taxable income. Utilization of the net operating loss carryforwards, of which \$1,647,000 will expire in 2037 and the balance of \$50,853,000 is not subject to expiration, may be subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended.

The Company has a deferred tax asset primarily related to net operating loss carryforwards as of December 31, 2023 and 2022. A valuation allowance has been provided for the full amount of the Company's net deferred tax asset at December 31, 2023 and 2022 because, based on the weight of all available evidence, positive and negative, management believes that it is more likely than not that such benefits will not be realized in the immediately foreseeable future.

As a result of the Company's net operating losses, no provision for income taxes for the years ended December 31, 2023 and 2022 has been provided, and the expected benefit from applying the statutory rate to the Company's pretax net income (loss) differs from the provision in the accompanying financial statements due to changes in the valuation allowance. The Company files a consolidated tax return.

**Note 8 - Shareholders' Equity**

***Preferred Stock***

On September 20, 2017, the Company's authorized shares were 10,000,000 in which the board of directors authorized the issuance of 2,000,000 shares of preferred stock at \$5 per share to Pinnacol, for a total of \$10,000,000. Each share of preferred stock had one vote with regard to all matters submitted to the holders of the Company's stock for approval and could be converted at any time into one share of common stock. In January 2023, all 2,000,000 outstanding shares were converted into 2,000,000 shares of common stock. After the conversion, no shares of preferred stock are authorized.

***Common Stock***

On September 20, 2017, the Company's authorized shares were 10,000,000 in which the board of directors authorized the issuance of 222,222 shares of common stock at \$0.50 per share to the founders of the Company, for a total of \$111,111. The founders include key management employees of Pinnacol who have provided unique and valuable expertise in the development of Cake. Each share of common stock has one vote with regard to all matters submitted to the holders of the Company's stock for approval.

## Notes to Consolidated Financial Statements

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**December 31, 2023 and 2022**

### **Note 8 - Shareholders' Equity (Continued)**

During 2018, the Company repurchased the aforementioned 222,222 shares of common stock at \$0.50 per share and placed them into treasury. During 2023, the shares held in treasury stock were retired.

In January 2023, the Company increased the number of common stock authorized to 20,000,000 shares, and the shareholder made a contribution of \$40,000,000 in exchange for 8,000,000 shares of common stock.

#### ***Additional Paid-in Capital***

During 2023, the shareholder made additional contributions of \$33,602,910 to additional paid-in capital. The aforementioned contributions were made to support ongoing operations of the new business.

### **Note 9 - Employee Retirement Plan**

Attune maintains a 401(k) plan covering all employees with at least one month of service. Under the 401(k) plan, the first 4 percent of a participant's contribution will be eligible for a discretionary employer match of 100 percent for each dollar contributed. The maximum employer match is 4 percent of a participant's annual compensation, subject to IRS thresholds. The Company's contributions to the 401(k) plan for the year ended December 31, 2023 were \$546,820 and are included in employee compensation and benefits in the consolidated statement of operations.

Cake maintains a 401(k) plan covering all employees with at least one month of service. Under the 401(k) plan, the first 6 percent of a participant's contribution will be eligible for a discretionary employer match of 100 percent for each dollar contributed. The maximum employer match is 6 percent of a participant's annual compensation, subject to IRS thresholds. The Company's contributions to the 401(k) plan for the year ended December 31, 2023 were \$9,839 and are included in employee compensation and benefits in the consolidated statement of operations.