

# AGENT INFORMATION SOFTWARE, INC.

## **Quarterly Reports**

Quarter Ended June 30, 2010

Trading Symbol: AIFS

AGENT INFORMATION SOFTWARE, INC.  
Quarterly Report  
March 31, 2010

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AGENT INFORMATION SOFTWARE, INC.  
Quarterly Report  
June 30, 2010

Unaudited Consolidated Balance Sheet

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 619,628
Accounts receivable, less allowance for doubtful accounts	100,122
Deferred income taxes – current (Note 3)	154,000
Other current assets	357,361
Total current assets	1,231,111
Software, equipment, furniture and leasehold improvements, net	2,602,282
Other assets	-
	\$ 3,833,393
<u>LIABILITIES &amp; STOCKHOLDERS' EQUITY</u>	
Current liabilities:	
Accounts payable	\$ 107,049
Deferred revenue	664,041
Accrued payroll and related liabilities	227,959
Other accrued liabilities	96,011
Lines of credit	375,000
Total current liabilities	1,470,060
Deferred income taxes (Note 3)	154,000
Total liabilities	1,624,060
Commitments and contingencies	--
Stockholders' equity:	
Common Stock, 12,000,000 shares authorized, 4,272,910 shares issued and outstanding on June 30, 2010	3,259,459
Accumulated deficit	(567,112)
Accumulated other comprehensive loss	(483,014)
Total stockholders' equity	2,209,333
	\$ 3,833,393

See Notes to Unaudited Consolidated Financial Statements.

AGENT INFORMATION SOFTWARE, INC.  
Quarterly Report  
March 31, 2010

Unaudited Consolidated  
Statements of Operations  
For the Six Months Ended June 30, 2010

	<u>June 30 2010</u>	<u>June 30 2009</u>
Net sales	\$ 2,269,455	\$ 2,442,371
Costs and expenses		
Cost of sales	618,394	601,641
Research and development	323,598	324,301
Sales, marketing and customer service	1,241,148	1,169,573
General and Administrative	<u>566,558</u>	<u>469,839</u>
Total costs and expenses	<u>2,749,698</u>	<u>2,565,354</u>
Income from operations	(480,243)	(122,983)
Other income/Expense	<u>3,229</u>	<u>2,150</u>
Income before income taxes	(477,014)	(120,833)
Income tax expense	<u>6,000</u>	<u>6,000</u>
Net income	<u>\$ (483,014)</u>	<u>\$ (126,833)</u>
<u>Earnings per share):</u>		
Basic income per share	\$ (.11)	\$ (.03)
Weighted average shares outstanding	4,272,910	4,279,960
Diluted income per share	\$ (.10)	\$ (.03)
Weighted average shares outstanding	4,814,810	4,778,277

See Notes to Unaudited Consolidated Financial Statements.

AGENT INFORMATION SOFTWARE, INC.  
Quarterly Report  
June 30, 2010

Unaudited Consolidated  
Statements of Operations  
For the Third Months Ended June 30, 2010

	2010	2009
Net sales	\$ 1,131,674	\$ 1,202,635
Costs and expenses		
Cost of sales	300,392	305,065
Research and development	242,967	250,937
Sales, marketing and customer service	628,221	557,193
General and Administrative	317,621	257,474
Total costs and expenses	1,489,201	1,370,669
Income from operations	(357,527)	(168,034)
Other income/Expense	(964)	1,804
Income before income taxes	(358,491)	(166,230)
Income tax expense	3,000	3,000
Net income	\$ (361,491)	\$ (169,230)

See Notes to Unaudited Consolidated Financial Statements

AGENT INFORMATION SOFTWARE, INC.  
Unaudited Consolidated Statement of Stockholders' Equity  
And Comprehensive Income  
For the Six Months Ended June 30, 2010

	Common Stock		Retained Earnings/ (Accumulated Deficit)	Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount			
Balances at December 31, 2009	4,273,210	\$ 3,256,038	\$( 505,593)	\$ (61,524)	\$ 2,688,921
Net income	--	--	(483,014)	--	(483,014)
Foreign currency translation adjustments	--	--	--	5	5
Comprehensive income	--	--	--	--	--
Stock option shares exercised	300	--	--	--	--
Shares repurchased/ Adjustments	--	(180)	--	--	(180)
Stock option expense (Note 6)	--	3,601	--	--	3,601
Balances at June 30, 2010	<u>4,272,910</u>	<u>\$ 3,259,459</u>	<u>\$( 988,607)</u>	<u>\$ (61,519)</u>	<u>\$ 2,209,333</u>

See Notes to Unaudited Consolidated Financial Statements.

AGENT INFORMATION SOFTWARE, INC.  
Quarterly Report  
June 30, 2010  
Unaudited Consolidated Statements of Cash Flows  
For the Six Months Ended June 30, 2010  
Increase (Decrease) in Cash

	June 30 2010	June 30 2009
<b>Cash flows from operating activities:</b>		
Net income	\$ (483,014)	\$ (126,833)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	321,965	297,113
Provision for doubtful accounts	--	--
Stock option expense (Note 6)	3,600	11,400
Changes in operating assets and liabilities:		
Accounts receivable	64,708	209,727
Other current assets	(158,006)	14,518
Other assets	--	--
Accounts payable	62,776	53,291
Deferred revenue	(280,958)	(154,357)
Accrued payroll and related liabilities	(17,227)	(42,621)
Other accrued liabilities	27,209	(91,274)
Net cash provided by operating activities	(458,947)	170,964
<b>Cash flows from investing activities:</b>		
Capitalized software development	(242,032)	(458,899)
Equipment and improvements	(71,971)	(181,736)
Net cash used in investing activities	(314,003)	(640,635)
<b>Cash flows from financing activities:</b>		
Common stock purchased/adjustments	3,420	--
Lines of credit	375,000	--
Net cash provided used in financing activities	378,420	--
Effect of foreign exchange on cash	--	(31,360)
Net (decrease) increase in cash	(394,530)	(501,031)
Cash at beginning of year	1,014,158	1,053,021
Cash at end of period	\$ 619,628	\$ 551,990

See Notes to Unaudited Consolidated Financial Statements.

# AGENT INFORMATION SOFTWARE, INC.

## Notes to Consolidated Financial Statements

June 30, 2010

### 1. Summary of significant accounting policies

Agent Information Software, Inc. (incorporated in 2009, a Nevada corporation) is comprised of two wholly owned subsidiaries, Auto-Graphics, Inc. and Agent Legal. Agent Legal, Inc., Nevada corporation, was incorporated in 2009 and provides software products and services used to manage and access information via the Internet/Web for the legal market. Auto-Graphics, Inc., a California corporation incorporated in 1960, including its wholly owned A-G Canada Ltd. Subsidiary, provide software products and services used to create, manage, publish and access information content via the Internet/Web.

A-G Canada, a Canadian corporation formed in 1997, provides software products and services to customers in the library community in Canada.

#### *Basis of presentation*

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of Agent Legal, Inc., Auto-Graphics, Inc. and subsidiary. All material intercompany accounts and transactions have been eliminated.

#### *Recently adopted accounting standards*

In October 2009, the Financial Accounting Standards Board (“FASB”) issued guidance on Multiple-Deliverable Revenue Arrangements. The guidance establishes the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities. The adoption of the guidance did not impact the Company’s financial position, results of operations or cash flows.

In June 2009, the FASB issued the Accounting Standards Codification (“ASC”) to serve as the single source of authoritative GAAP. The adoption of this statement did not have an impact on the Company’s financial position, results of operations or cash flows. All references to statements and standards using references prior to the ASC have been removed in the following notes.

In May 2009, the FASB issued guidance on Subsequent Events. The guidance establishes general standards for accounting and disclosure of events occurring subsequent to the balance sheet date but prior to issuance of the financial statements. The adoption of this guidance did not impact the Company’s financial position, result of operations or cash flows.

In June 2006, the FASB issued guidance on Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109. The interpretation clarifies the uncertainty in income taxes recognized in financial statements. It requires evaluation of a tax position being taken. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of this guidance did not impact the Company’s financial position, results of operations or cash flows.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

(Continued)

**1. Summary of significant accounting policies (continued)**

*Use of estimates*

The preparation of the financial statements of the Company in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and sales and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements. Actual results may materially differ from those estimated.

*Revenue recognition*

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. The Company enters into certain arrangements where it is obligated to deliver multiple products and/or services (multiple elements). In these arrangement, the Company generally allocates the total revenue among the elements based on the selling price of each element when sold separately (vendor-specific objective evidence).

Recurring revenues for SaaS (Software as a Service) services, database subscriptions and software maintenance and support contracts are recognized as services are rendered on a quarterly pro rata basis over the contractual period commencing in the period in which access rights are provided to the customer.

License revenues are recognized when the software is shipped to the customer or system access rights are provided to the customer.

Revenues for installation, training and other non-recurring services are recognized as services are provided to the customer.

Revenues for which payment has been received in advance are treated as deferred revenue until services are provided and the revenues have been earned.

*Foreign currency translation*

Assets and liabilities recorded in foreign currencies are translated at the exchange rate of record for the first day of the year; at year end the translation at the balance sheet date. Revenue and expenses are translated at the exchange rate on the first day of the year and at year end translated to the average rate for the full year. Translation adjustments resulting from this process are recorded to other comprehensive income and included as a component of stockholders' equity. The functional and reporting currency for operations located in Canada is the Canadian dollar. Consequently, assets and liabilities must be translated into U.S. dollars using standard exchange rates. All other Company transactions are denominated in U.S. dollars.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

(Continued)

**1. Summary of significant accounting policies (continued)**

*Credit risk*

The Company performs ongoing credit evaluations of its customers and generally requires cash deposits in advance of providing services. The Company maintains a reserve for potential losses from uncollectible accounts in the form of an allowance for doubtful accounts and actual losses in 2009 and 2008 were in line with management's expectations. The Company may be exposed to credit risk for trade receivables beyond the reserves established by the Company for this purpose. During the year, the Company had cash balances on hand at various financial institutions which exceeded FDIC and CDIC insured limits for periods of time. (See cash and cash equivalents.)

*Fair value of financial instruments*

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value.

Cash and cash equivalents and accounts receivables: the carrying amounts approximate fair value because of the short-term maturity of these instruments.

*Cash and cash equivalents*

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

*Accounts receivable*

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on reviews of outstanding amounts on a regular basis (See credit risk.)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

**1. Summary of significant accounting policies** *(continued)*

*Software*

Software is recorded at historical cost. Software as of June 30, 2010, consists of the following:

Software	\$10,827,030
Less accumulated amortization	<u>8,370,356</u>
Software, net	<u>\$ 2,456,674</u>

Certain costs incurred related to the development and purchases of computer software are capitalized and amortized. The Company collects and segregates software development labor hours applied to design, development, quality assurance and product documentation associated with the software development process. All labor hours associated with the design and specification development process are expensed as incurred until a detailed design has been developed. All labor hours associated with coding, debugging, alpha testing, software bug corrections, quality assurance testing and documentation are eligible for capitalization. Generally, the Company capitalizes approximately 70% of eligible costs based on an average actual cost per labor hour and expenses the remainder. On an annual basis, the Company evaluates its capitalized software for recoverability against the estimated future revenues over the next five years from the products or services.

Certain marketing costs incurred to develop Web sites are expenses as incurred.

Amortization of software costs is based on the greater of the projected to actual revenue ratio or straight-line method and commences in the first full year of product availability and continues over the product's estimated useful life. The estimated useful life for computer software and databases is seven years based on its estimated economic life.

*Equipment*

Equipment is stated at cost less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the lease. Depreciation and amortization is based on the straight-line method over the estimated useful life of the asset and commences in the year the asset is placed in and/or is available for service or sale using the half-year convention methods.

Depreciation and amortization is computed using straight-line methods over the following estimated useful lives:

Equipment and Automobiles	3-5 years
Furniture and fixtures	3-10 years

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

**1. Summary of significant accounting policies** *(continued)*

Equipment at June 30, 2010, consists of the following:

Equipment, Auto., & F&F	\$ 2,081,017
Less accumulated depreciation	<u>1,935,409</u>
Equipment, net	<u>\$ 145,608</u>

***Impairment of long-lived assets***

The Company periodically assesses the recoverability of the carrying amounts of long-lived assets. An impairment loss is recognized when expected undiscounted future cash flows are less than the carrying amount of the asset. The impairment loss is the differences by which the carrying amount of the asset exceeds its fair value. There were no impairment losses or reserves as of June 30, 2010.

***Earnings per share***

Basic and diluted earnings per share computations presented by the Company conform to the standard and are based on the weighted average number of shares of Common Stock outstanding during the year.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

**Year ended March 31, 2010**

	<u>Net Income</u>	<u>Shares</u>	<u>Per Share</u>
<b>Basic earnings per share</b>			
Net income available to common stockholders	\$ (483,910)	4,272,910	\$ (0.11)
Effect of dilutive securities stock options	<u>-</u>	<u>541,900</u>	
<b>Diluted earnings per share</b>			
Net income available to common stockholders	\$ (483,910)	4,814,810	\$ (0.10)

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

**1. Summary of significant accounting policies** *(continued)*

*Share-based compensation*

The Company recognizes in the financial statements all costs resulting from share-based payment transactions at their fair values. Compensation cost for the portion of the awards for which the requisite service had not been rendered that were outstanding as of May 10, 2005 is recognized in the consolidated statements of operations over the remaining service period after such date based on the award's original estimated of fair value. Share-based compensation expense recognized for employees and directors for the period ended June 30, 2010, were \$3,601, and are included in general and administrative expense. For the period ended June 30, 2010, cash flows from operations and cash flows from financing activities were not affected.

The Company determined the fair value of share-based payment awards to employees and directors on the date of grant using the Black-Scholes model, which is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the expected term of the awards, and actual and projected employee stock option exercise behaviors.

The Company used the simplified-method to determine an award's expected term and the Company's historical volatility to approximate expected volatility.

The Company has elected to adopt the detailed method for calculating the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of employee share-based compensation awards that are outstanding. (See Note 6 below.)

*Comprehensive income*

Comprehensive income consists of net income and other gains and losses that are not included in net income, but are recorded directly in the consolidated statements of shareholders' equity, such as the unrealized gains and losses on the translation of the assets and liabilities of the Company's foreign operations and gains or losses.

*Supplemental disclosure of cash flow information*

The Company paid \$1,056 interest expense for the quarter end June 30, 2010 and no interest expense in the years ended December 31, 2009 and 2008. The Company paid income taxes in the amount of \$22,375 and \$11,015 in 2009 and 2008 respectively.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

(Continued)

**1. Summary of significant accounting policies** *(continued)*

*Concentrations*

During the period ended June 30, 2010 there were two customer accounts which represented more than 10% of the Company's net sales.

**2. Credit facilities**

The bank renewed and extended the Company's \$500,000 revolving line of credit for working capital through May 1, 2011. The interest rate on revolving line of credit is the bank prime rate (3.5% at June 30, 2010) plus a 1.0% margin or 4.5% at June 30, 2010, with a floor interest rate of 4.5%. The credit facility is secured by all of the assets of the Company and its subsidiary, A-G Canada Ltd. and requires that the Company maintain certain minimum financial covenant ratios. The outstanding borrowings on the revolving credit line at June 30, 2010 were \$375,000.

**3. Income taxes**

The (benefit) provision for income taxes consists of the following for the year ended December 31, 2009:

<u>Current income taxes based on income</u>	
Federal	\$ (5,199)
State	3,904
Foreign	-
Total current income tax provision	<u>(1,295)</u>
<u>Deferred income taxes based on income</u>	
Federal	-
State	(8,000)
Foreign	-
Total deferred income tax provision	<u>(8,000)</u>
Total income tax provision	<u><u>\$ (9,295)</u></u>

A reconciliation of the (benefit) provision for income taxes based on income follows for the year ended December 31, 2009:

Statutory rate	34%
Statutory U.S. Federal income tax	\$ 31,000
Adjustments for foreign tax rates	10,000
Permanent differences	8,000
State tax, net of federal benefit	(3,000)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

Change in federal valuation allowance	(23,000)
Other	(32,295)
Total income tax provision	<u>\$ (9,295)</u>

**3. Income taxes** *(continued)*

The deferred income tax assets and liabilities are composed of the following at December 31, 2009:

<u>Current deferred income taxes</u>	
Bad debts/accrued vacation/other	\$ 154,000
<u>Non-current deferred income taxes</u>	
Deferred income tax assets	
Net operating loss	634,000
AMT credits/other	14,000
	<u>648,000</u>
Deferred income tax liabilities	
Tax over book amortization and depreciation	<u>(469,000)</u>
Net non-current deferred income tax assets	179,000
Valuation allowance	<u>(333,000)</u>
Net non-current deferred income tax liability	<u>(154,000)</u>
Net deferred income tax liability	<u>\$ -</u>

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been reported in the Company's financial statements or tax returns. The valuation allowance at December 31, 2009 reflects an unrecognized U.S. and foreign tax loss carryforward. At December 31, 2009, the Company had available net operating loss carryforwards of \$1,470,000 for federal income tax purposes, \$655,000 for state income tax purposes and \$189,000 for foreign income tax purposes. These net operating loss carryforwards expire from 2020 to 2023 for federal taxes, 2010 to 2012 for state taxes, and 2010 to 2015 for foreign taxes.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

**4. Commitments and contingencies**

The Company leases its corporate office facility from an independent third party. The five-year building lease expired December 31, 2012. Year to date rental expense for the corporate office was \$136,346 for quarter ended June 30, 2010. The Company also renewed a three year lease through December 31, 2012 on a small sales and support office in Toronto, Canada for its wholly owned subsidiary, A-G Canada Ltd.

The Company incurred year to date total facilities, vehicle and equipment lease and rental expense of approximately \$159,855 for quarter ended June 30, 2010. The Company is obligated under certain non-cancelable operating leases for office facilities and equipment expiring in 2010 through 2012.

The following approximates future minimum lease commitments as of December 31:

2010	\$	291,000
2011		299,000
2012		<u>308,000</u>
Total minimum lease payments	\$	<u>898,000</u>

*Litigation*

From time to time, the Company is involved in legal proceedings incidental to its normal business activities. Management does not believe that the outcome of these proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**5. Related party transactions**

The Company paid to shareholders, Chairman of the Board, and Directors a total of \$46,857 in director fees and expenses year to date through June 30, 2010.

**6. Stockholder's equity**

*Stock Purchases*

In December 2008, the Company fully vested and repurchased 45,500 stock options at \$0.77 per share, less each options strike price, for a net cost of approximately \$17,650.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

**6. Stockholder's equity (continued)**

*2002 Qualified and non-qualified stock option plan*

The Company adopted a qualified and non-qualified stock option plan on February 27, 2002. The 2002 Stock Option Plan was amended on October 21, 2004, to increase the number of available options to purchase shares to 800,000. Under the plan, the stock option price per share for options granted is determined by the Board of Directors and is based on the market price of the Company's common stock on the date of grant. The stock options vest over four years and no option can be exercised later than ten years from the date it was granted.

The Company determined compensation cost based on the fair value for its fully vested stock options at grant date. The Company's total compensation expense recorded from inception-to-date (net of tax) is approximately \$13,000 and the total compensation expense (net of tax) would be approximately \$21,000 based on current stock option grants.

The fair value for these options was estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants at December 31, 2009:

Expected life	5 years
Risk-free interest rate	4.5%
Expected volatility	30%
Dividend yield	0%
Fair value of options granted at fair market price	\$ 0.16

All options granted were at the fair market price.

Transactions involving stock options for 2009 are summarized as follows:

	Number of <u>Shares</u>	Weighted Avg. <u>Excise Price</u>
Balance at December 31, 2008	501,900	\$ 0.47
Granted	40,000	0.45
Exercised and repurchased	-	-
Forfeited	-	-
Balance at December 31, 2009	<u>541,900</u>	<u>\$ 0.47</u>

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

June 30, 2010

(Continued)

**6. Stockholder's equity (continued)**

Additional information with respect to the outstanding options as of December 31, 2009, is as follows:

Option Exercise Price Range	Options Outstanding			Options Exercisable	
	Number of Shares	Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price	Number of Shares	Average Exercise Price
\$0.30 to 0.499	279,900	2.90	\$ 0.36	241,900	\$ 0.34
\$0.50 to 0.699	140,000	6.64	0.55	56,000	0.55
\$0.70 to 0.999	122,000	7.96	0.81	24,400	0.81
	<u>541,900</u>	5.04	\$ 0.47	<u>322,300</u>	\$ 0.40

**7. 401(k) Plan**

The Company sponsors a defined contribution plan qualified under 401(k) of the Internal Revenue Code for the benefit of its U.S. based employees. All full time employees are eligible to participate. The Company pays the administrative expenses for the plan. Annually, the Company may, at its sole discretion, award an amount as a match against employee contributions to the 401(k) plan. The Company contribution was approximately \$25,000 for the year ended December 31, 2009.

**8. Subsequent events**

Management has evaluated subsequent events through July 29, 2010, the date on which the consolidated financial statements were available to be issued.