



Annual Report

December 31, 2019 and 2018

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Agent Information Software, Inc.

We have audited the accompanying consolidated balance sheets of Agent Information Software, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Agent Information Software, Inc. as of December 31, 2019 and 2018, 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.

A handwritten signature in black ink that reads "Swenson Corporation" in a cursive script.

SWENSON CORPORATION

March 25, 2020

AGENT INFORMATION SOFTWARE, INC.

Consolidated Balance Sheets

December 31, 2019 and 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	\$ 2,678,652	\$ 2,065,628
Accounts receivable, trade, net of allowance of \$7,250	649,606	113,146
Other current assets	191,472	96,378
Income taxes receivable	42,708	-
Total current assets	3,562,438	2,275,152
Computer software, net	2,410,434	2,596,210
Equipment, net	221,199	69,711
Deposits	17,740	16,820
Total assets	<u>\$ 6,211,811</u>	<u>\$ 4,957,893</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Balance Sheets

December 31, 2019 and 2018

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2019</u>	<u>2018</u>
Current liabilities:		
Current maturities on long-term debt	\$ -	\$ 11,625
Accounts payable, trade	96,352	46,032
Deferred revenue	1,888,602	1,527,168
Accrued payroll and related liabilities	263,975	133,591
Other accrued liabilities	221,626	91,547
Income taxes payable	-	39,467
Total current liabilities	2,470,555	1,849,430
Deferred income taxes	267,000	136,000
Total liabilities	2,737,555	1,985,430
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, \$0.001 par value, 12,000,000 shares authorized, 4,424,577 and 4,342,577 share issued and outstanding, respectively	3,350,332	3,302,345
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Accumulated other comprehensive loss	(102,163)	(139,232)
Retained earnings (deficit)	226,087	(190,650)
Total stockholders' equity	3,474,256	2,972,463
Total liabilities and stockholders' equity	<u>\$ 6,211,811</u>	<u>\$ 4,957,893</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Income

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Sales:		
Recurring sales	\$ 5,030,056	\$ 4,949,039
Non-recurring sales	<u>530,310</u>	<u>204,380</u>
Total net sales	5,560,366	5,153,419
Costs and expenses:		
Cost of sales	1,196,830	1,303,524
Research and development	260,013	274,486
Sales, marketing, and customer service	1,902,056	1,971,498
General and administrative	<u>1,513,752</u>	<u>1,029,085</u>
Total costs and expenses	<u>4,872,651</u>	<u>4,578,593</u>
Income from operations	687,715	574,826
Other income, net	<u>7,636</u>	<u>6,067</u>
Income before provision for income taxes	695,351	580,893
Provision for income tax	<u>168,000</u>	<u>73,000</u>
Net income	<u>\$ 527,351</u>	<u>\$ 507,893</u>
Earnings per share:		
Basic income per share	\$ 0.12	\$ 0.12
Weighted average shares outstanding	4,424,577	4,342,577
Diluted income per share	\$ 0.10	\$ 0.10
Weighted average shares outstanding	5,197,410	5,174,410

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net income	\$ 527,351	\$ 507,893
Other comprehensive gain (loss):		
Foreign currency translation adjustments	<u>37,069</u>	<u>(48,414)</u>
Other comprehensive loss	<u>37,069</u>	<u>(48,414)</u>
Total comprehensive income	<u>\$ 564,420</u>	<u>\$ 459,479</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Changes in Stockholders' Equity

December 31, 2019 and 2018

	Common Stock		Retained	Accumulated	Total
	Shares	Amount	Earnings (Deficit)	Other Comprehensive Loss	Stockholders' Equity
Balance, December 31, 2017	4,270,910	\$ 3,285,732	\$ (698,543)	\$ (90,818)	\$ 2,496,371
Net income		-	507,893	-	507,893
Foreign currency translation		-	-	(48,414)	(48,414)
Comprehensive income					459,479
Common stock issuance	71,667	13,483	-	-	13,483
Stock option expense		3,130	-	-	3,130
Balance, December 31, 2018	4,342,577	3,302,345	(190,650)	(139,232)	2,972,463
Net income		-	527,351	-	527,351
Foreign currency translation		-	-	37,069	37,069
Comprehensive income					564,420
Common stock dividends			(110,614)		(110,614)
Common stock issuance	82,000	15,340	-	-	15,340
Stock option expense		32,647	-	-	32,647
Balance, December 31, 2019	<u>4,424,577</u>	<u>\$ 3,350,332</u>	<u>\$ 226,087</u>	<u>\$ (102,163)</u>	<u>\$ 3,474,256</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income	\$ 527,351	\$ 507,893
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	683,131	643,975
Stock option expense	32,647	3,130
Deferred income tax expense	131,000	22,000
Changes in operating assets and liabilities	<u>(42,432)</u>	<u>54,807</u>
Net cash provided by operating activities	1,331,697	1,231,805
Cash flows from investing activities:		
Acquisitions of equipment	(208,843)	(5,876)
Capitalized software development	<u>(440,000)</u>	<u>(609,791)</u>
Net cash used in investing activities	(648,843)	(615,667)
Cash flows from financing activities:		
Payments on long-term debt	(11,625)	(17,079)
Commons stock dividends paid	(110,614)	-
Common stock issuance	<u>15,340</u>	<u>13,483</u>
Net cash used in financing activities	(106,899)	(3,596)
Effect of exchange rate changes on cash	<u>37,069</u>	<u>(48,414)</u>
Net increase in cash	613,024	564,128
Cash and cash equivalents, beginning of year	<u>2,065,628</u>	<u>1,501,500</u>
Cash and cash equivalents, end of year	<u>\$ 2,678,652</u>	<u>\$ 2,065,628</u>
Supplemental disclosure on cash transactions:		
Cash paid during the year for income taxes	<u>\$ 40,414</u>	<u>\$ 4,274</u>
Cash paid during the year for interest expense	<u>\$ 137</u>	<u>\$ 583</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of significant accounting policies

Agent Information Software, Inc. (the “Company”), a Nevada corporation incorporated in 2010, including its wholly owned subsidiaries Auto-Graphics, Inc., and A-G Canada, Ltd., provides software products and services used to create, manage, publish and access information content via the Internet/Web.

Auto-Graphics, Inc., a corporation formed in 1960, provides software products and services to customers in the library community throughout the United States of America.

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

Basis of presentation

The consolidated 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 Information Software, Inc. and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of the consolidated financial statements of the Company in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements. Actual results may materially differ from those estimated.

Revenue recognition

The Company derives its revenues from various software subscriptions, maintenance and support services, licensing and other non-recurring services. Revenues are primarily recognized when control of the product is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The Company does not have any significant financing components as payment is received within contract terms, at or shortly after the point of sale. Costs incurred to obtain a contract will be expensed as incurred when the amortization period is less than a year.

Revenue from performance obligations satisfied at a point in time consist of licensing fees, installation, training and other non-recurring services and are recognized once the software has been accessed by the customer.

Revenue from performance obligations satisfied over time consists of SaaS (Software as a Service) services, database subscriptions and software maintenance, support services and other recurring services.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of significant accounting policies (continued)

Foreign currency translation

Assets and liabilities recorded in foreign currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. Unrealized currency 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.

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 2019 and 2018 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 years ended December 31, 2019 and 2018, the Company had cash balances on hand at various financial institutions which exceeded FDIC and CDIC insured limits for periods of time.

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, accounts receivables and notes payable: 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. The Company did not have any cash equivalents at December 31, 2019 and 2018.

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.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of significant accounting policies (continued)

Deferred revenue

Deferred revenue is mainly comprised of unearned revenue related to library subscription services. Unearned revenue is generally invoiced annually at the beginning of each contract period primarily for single year agreements and recognized ratably over the coverage period. Deferred revenue also includes payments the Company has been paid in advance and earns the revenue when the Company transfers control of the product or service. Customer advance payments were approximately \$1,258,000 and \$1,527,000 at December 31, 2019 and 2018, respectively.

Computer software

Computer software includes software development costs. The capitalization of software development costs is governed by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 985-20 if the software is to be sold, leased or otherwise marketed. Capitalization of the developed software begins after the technological feasibility of the software has been established, for software to be marketed. Software development costs primarily includes salaries and related payroll costs and costs of independent contractors incurred during development. Research and development costs incurred prior to the establishment of technological feasibility, for software to be marketed, are expensed as incurred. Software development costs, for software to be marketed, are amortized using the straight-line method over its estimated useful life, which is seven years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

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 are 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 method.

Depreciation and amortization are calculated over the following estimated useful lives:

Computer equipment	5 years
Furniture and fixtures	3 - 10 years
Other equipment	3 - 5 years
Leasehold improvements	Shorter of economic life or term of the lease

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of significant accounting policies (continued)

Equipment (continued)

Equipment at December 31 consists of the following:

	<u>2019</u>	<u>2018</u>
Computer equipment	\$ 237,929	\$ 284,426
Furniture and fixtures	218,737	120,107
Other equipment	299,541	315,863
Leasehold improvements	<u>73,383</u>	<u>51,475</u>
	829,590	771,871
Less accumulated depreciation and amortization	<u>608,391</u>	<u>702,160</u>
Equipment, net	<u>\$ 221,199</u>	<u>\$ 69,711</u>

Impairment of long-lived assets

In accordance with the FASB ASC 360, *Property, Plant and Equipment*, long-lived tangible and intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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 difference by which the carrying amount of the asset exceeds its fair value. There were no impairment losses or reserves as of December 31, 2019 and 2018.

Dividends

The Company declared and paid cash dividends per share during the year ended December 31, 2019 totaling \$110,614. Future dividends are subject to declaration by the Board of Directors.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of significant accounting policies (continued)

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:

	<u>Net income</u>	<u>Shares</u>	<u>Per share</u>
<u>Year ended December 31, 2019</u>			
Basic earnings per share			
Net income available to common stockholders	\$ 527,351	4,405,244	\$ 0.12
Effect of dilutive securities stock options	<u>-</u>	<u>792,166</u>	<u></u>
Diluted earnings per share			
Net income available to common stockholders	<u>\$ 527,351</u>	<u>5,197,410</u>	<u>\$ 0.10</u>
 <u>Year ended December 31, 2018</u>			
Basic earnings per share			
Net income available to common stockholders	\$ 507,893	4,287,021	\$ 0.12
Effect of dilutive securities stock options	<u>-</u>	<u>887,389</u>	<u></u>
Diluted earnings per share			
Net income available to common stockholders	<u>\$ 507,893</u>	<u>5,174,410</u>	<u>\$ 0.10</u>

Share-based compensation

The Company recognizes in the consolidated 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 income over the remaining service period after such date based on the award's original estimate of fair value. Share-based compensation expense recognized for employees and directors for the years ended December 31, 2019 and 2018 was approximately \$32,600 and \$3,300, respectively, and is included in general and administrative expense. For the years ended December 31, 2019 and 2018, 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.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of significant accounting policies (continued)

Share-based compensation (continued)

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 7)

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 stockholders' 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.

Income taxes

The Company accounts for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences that have been included in the consolidated financial statements or tax returns. Deferred taxes are recognized for all temporary differences between the tax and financial reporting bases of the Company's assets and liabilities based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is provided for deferred tax assets, if it is more likely than not that the Company will not realize those tax assets through future operations.

The Company evaluates and accounts for uncertain tax positions in accordance with FASB ASC 740, *Income Taxes*, which requires that management review uncertain tax positions taken and evaluate whether it is more likely than not that the tax position will be sustained as a result of an audit. Tax positions that are uncertain and do not meet the criteria for more likely than not are adjusted by a valuation account related to the amount for which is uncertain. Management believes that all tax positions taken to date are highly certain and accordingly, no accounting adjustments have been made to the consolidated financial statements. The Company is subject to federal income tax, California franchise tax and various taxes in other states.

Concentrations

During the year ended December 31, 2019 and 2018, there were no customer accounts which represented more than 10% of the Company's net sales. There were two and three customer accounts which represented more than 10% of the Company's accounts receivable as of December 31, 2019 and 2018, respectively, and all accounts were subsequently collected after year end.

Reclassifications

Certain amounts have been reclassified from the prior year presentation to conform to the current year presentation.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of significant accounting policies (continued)

Accounting standards update

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (ASC 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the new standard effective January 1, 2019, the first day of the Company’s fiscal year, using the modified retrospective method.

As part of the adoption of ASC 606, the Company elected to use the following transition practical expedients: (1) revenue from contracts which begin and end in the same fiscal year has not been restated; (2) hindsight was used when determining the transaction price for contracts that include variable consideration, rather than estimating variable consideration amounts in the comparative reporting period; (3) the amount of transaction price allocated to unsatisfied performance obligations and when those amounts are expected to be recognized, for the reporting periods prior to the date of initial application of the guidance, have not been disclosed; and (4) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate.

The majority of the Company’s revenue is recognized over time as services are delivered or performed in accordance with the contract agreements. The Company also has revenues that are recognized at a point in time based on the transfer of control. In addition, the majority of the Company’s contracts do not contain variable consideration and contract modifications are generally minimal. For these reasons, there is not a significant impact as a result of electing these transition practical expedients.

The adoption of ASC 606 did not have a significant impact on the Company’s financial position, results of operations, or cash flows. The majority of the Company’s revenue arrangements generally consist of a performance obligation to transfer promised services over a period of time. Based on the Company’s evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption. The Company began invoicing the full contract in 2019. The Company recognized an increase in accounts receivable and deferred revenue totaling \$517,000.

In February 2016, the FASB issued ASU 2016-02 on Leases. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For all nonpublic and other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020. Early application of the amendments in this Update is permitted for all entities. The Company is currently evaluating the new guidance to determine the impact the adoption of this guidance will have on the Company’s results of operations, cash flows and financial condition.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

2. Long-term debt

Long-term debt at December 31 consists of the following:

	2019	2018
Note payable to creditor, payable in monthly payments of \$1,472 with 3.14% interest. The note matures August 2019 and is collateralized by equipment.	\$ -	\$ 11,625
	-	11,625
Less, current portion of long-term debt	-	11,625
Total long-term portion of debt	\$ -	\$ -

3. Line of credit

The Company has a bank revolving line of credit agreement that provides for maximum borrowings up to \$250,000 at rates varying from Prime (as published in the Western Edition Wall Street Journal) plus .5%, but not less than 4.25% at any time (5.25% at December 31, 2019). The line of credit matures on October 16, 2020.

Borrowings under the agreements were for general working capital purposes. The line of credit is collateralized by substantially all of the assets of the Company and is guaranteed by one of the stockholder-officers' of the Company. The Company had no outstanding balances on this line of credit as of December 31, 2019.

4. Income taxes

The provision for income taxes consists of the following for the years ended December 31:

	2019	2018
<u>Current income taxes based on income</u>		
Federal	\$ 9,000	\$ -
State	28,000	51,000
Foreign	-	-
Total current income tax expense	37,000	51,000
<u>Deferred income taxes based on income</u>		
Federal	132,000	(20,000)
State	(4,000)	26,000
Foreign	3,000	16,000
Total deferred income tax expense	131,000	22,000
Total income tax expense	\$ 168,000	\$ 73,000

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

4. Income taxes (continued)

A reconciliation of the benefit for income taxes based on income follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Statutory rate	21%	21%
Statutory U.S. Federal income tax	\$ 153,000	\$ 122,000
Permanent differences	10,000	4,000
State tax, net of federal tax	20,000	53,000
Change in federal valuation allowance	-	(161,000)
Adjustments in foreign tax and other	<u>(15,000)</u>	<u>55,000</u>
Total income tax expense	<u>\$ 168,000</u>	<u>\$ 73,000</u>

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

Deferred income tax assets

Bad debts/accrued vacation/other	\$ 42,000	\$ 42,000
Net operating loss	319,000	433,000
Fixed assets/other	<u>58,000</u>	<u>73,000</u>
	419,000	548,000
Valuation allowance	<u>(319,000)</u>	<u>(336,000)</u>
	100,000	212,000
Deferred income tax liabilities:		
Tax over book amortization and depreciation	<u>(367,000)</u>	<u>(348,000)</u>
Net deferred income taxes	<u>\$ (267,000)</u>	<u>\$ (136,000)</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 consolidated financial statements or tax returns. The valuation allowance at December 31, 2019 and 2018 reflects an unrecognized U.S. and foreign tax loss carryforward. At December 31, 2019 and 2018, the Company had available net operating loss carryforwards of \$209,000 for state income tax purpose. These net operating loss carryforwards expire from 2030 to 2031 for state taxes.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

5. Commitments and contingencies

The Company leases its corporate office facility from an independent third party. The six-year building lease expired April 30, 2019. On May 1, 2019, the Company signed a new lease for its' corporate office facilities from an independent third party. The lease calls for annual increases to the monthly base rent. The lease is for six years and three months expiring July 31, 2025. Rental expense was approximately \$137,000 and \$124,000 for the years ended December 31, 2019 and 2018, respectively.

The Company has a server management services lease from an independent third party. The lease expires December 19, 2020. Rental expense was approximately \$155,000 and \$172,000 for the years ended December 31, 2019 and 2018, respectively.

The Company leases a storage facility from an independent third party. The three-year storage lease expires April 30, 2022. Rental expense was approximately \$28,000 and \$21,000 for the years ended December 31, 2019 and 2018, respectively.

The following approximates future minimum lease commitments for the years ended December 31:

2020	\$ 173,000
2021	181,000
2022	161,000
2023	153,000
2024	158,000
Thereafter	<u>94,000</u>
Total minimum lease payments	<u>\$ 920,000</u>

6. Related party transactions

The Company paid to directors a total of \$68,000 and \$48,000 in director fees for the years ended December 31, 2019 and 2018, respectively.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

7. Stockholders' equity

2010 Qualified and non-qualified stock option plan

The Company adopted a qualified and non-qualified stock option plan on January 5, 2010 for 1,000,000 options. The 2010 Stock Option Plan was amended on August 25, 2011 to accelerate vesting of options to 100% before a change in control. 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 five 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. As of December 31, 2019 and 2018, the Company's total compensation expense recorded from inception-to-date (net of tax) was approximately \$162,000 and \$51,000, respectively.

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:

	2019	2018
Expected life	5 years	5 years
Risk-free interest rate	3.3%	3.3%
Expected volatility	30%	30%
Dividend yield	0%	0%
Fair value of options granted at fair market price	\$ 0.20	\$ 0.20

All options granted were at the fair market price.

Transactions involving stock options for the years ended December 31, 2019 and 2018 are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2017	901,000	\$ 0.43
Granted	50,000	0.81
Exercised	(71,667)	-
Forfeited	(52,000)	-
Balance at December 31, 2018	827,333	0.44
Granted	50,000	1.85
Exercised	(82,000)	-
Forfeited	(10,000)	-
Balance at December 31, 2019	785,333	\$ 0.48

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

7. Stockholders' equity (continued)

Additional information with respect to the stock options outstanding and exercisable as of December 31, 2019 and 2018 is as follows:

Option Exercise Price Range	Number of Shares	Options Outstanding		Options Exercisable	
		Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price	Number of Shares	Average Exercise Price
\$0.10 to 0.29	40,000	4.70	\$ 0.18	40,000	\$ 0.18
\$0.30 to 0.49	174,000	5.77	0.36	174,000	0.36
\$0.50 to 0.69	471,333	7.10	0.50	320,889	0.50
\$0.70 to 0.89	50,000	8.41	0.81	16,500	0.81
	<u>735,333</u>	6.91	\$ 0.48	<u>551,389</u>	\$ 0.44

8. 401(k) Plan

The Company sponsors a defined contribution plan qualified under Section 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 of 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 \$54,000 and \$34,000 for the years ended December 31, 2019 and 2018, respectively.

9. Supplemental disclosures of consolidated cash flow information

The changes in the components of the operating assets and liabilities in the consolidated statements of cash flows, for the years ended December 31 are as follows:

	2019	2018
(Increase) decrease in assets:		
Accounts receivable, net	\$ (536,460)	\$ (78,389)
Other current assets and deposits	(96,014)	12,855
Increase (decrease) in liabilities:		
Accounts payable, trade	50,320	7,415
Deferred revenue	361,434	63,838
Accrued payroll and related liabilities	130,384	(24,673)
Other accrued liabilities	130,079	34,294
Income taxes payable	(82,175)	39,467
	<u>\$ (42,432)</u>	<u>\$ 54,807</u>

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Notes to Consolidated Financial Statements

December 31, 2019 and 2018

10. Computer software

Computer software as of December 31, 2019 and 2018 consists of the following:

Computer software	\$ 4,427,116	\$ 6,501,385
Less, accumulated amortization	<u>2,016,682</u>	<u>3,905,175</u>
Computer software, net	<u>\$ 2,410,434</u>	<u>\$ 2,596,210</u>

11. Subsequent events

Management has evaluated subsequent events through March 25, 2020, the date on which the consolidated financial statements were available to be issued.

As a result of the spread of the COVID-19 Coronavirus, economic uncertainties have arisen. The Company has not observed a material impact on our existing sales; however, it is possible that some of our customers may be impacted negatively. At this time, the potential impact on new sales is unknown.