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AGENT INFORMATION SOFTWARE

Annual Report

December 31, 2013 and 2012

Table of Contents

	<u>Page Reference</u>
Report of Independent Auditors	1
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Stockholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8



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, 2013 and 2012, and the related consolidated statements of operations, 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, 2013 and 2012, 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.

Swenson Corporation
SWENSON CORPORATION

May 20, 2014

AGENT INFORMATION SOFTWARE, INC.

Consolidated Balance Sheets

December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 566,997	\$ 295,070
Restricted cash	286,698	303,025
Accounts receivable, trade	161,543	345,191
Deferred income taxes, current	105,000	174,000
Other current assets	<u>112,870</u>	<u>208,682</u>
Total current assets	1,233,108	1,325,968
Capitalized software, net	1,745,185	1,708,901
Equipment, net	382,290	273,311
Total assets	<u>\$ 3,360,583</u>	<u>\$ 3,308,180</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Balance Sheets

December 31, 2013 and 2012

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2013</u>	<u>2012</u>
Current liabilities:		
Current maturities on long-term debt	\$ 26,352	\$ 11,945
Accounts payable, trade	91,228	74,737
Deferred revenue	1,037,439	980,541
Accrued payroll and related liabilities	159,671	214,348
Other accrued liabilities	<u>147,654</u>	<u>97,080</u>
Total current liabilities	1,462,344	1,378,651
Long-term debt	85,720	34,839
Deferred income taxes	<u>105,000</u>	<u>174,000</u>
Total liabilities	1,653,064	1,587,490
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, \$0.001 par value, 12,000,000 shares authorized, 4,269,610 and 4,272,610 shares issued and outstanding, respectively	3,276,162	3,273,752
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Accumulated other comprehensive (loss) income	(20,682)	16,091
Accumulated deficit	<u>(1,547,961)</u>	<u>(1,569,153)</u>
Total stockholders' equity	1,707,519	1,720,690
Total liabilities and stockholders' equity	<u>\$ 3,360,583</u>	<u>\$ 3,308,180</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Operations

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Sales:		
Recurring sales	\$ 4,234,905	\$ 4,220,549
Non-recurring sales	<u>476,363</u>	<u>793,944</u>
Total net sales	4,711,268	5,014,493
Costs and expenses:		
Cost of sales	1,648,506	1,193,105
Research and development	514,241	567,794
Sales, marketing, and customer service	1,477,732	2,100,544
General and administrative	<u>1,026,188</u>	<u>1,011,792</u>
Total costs and expenses	<u>4,666,667</u>	<u>4,873,235</u>
Income from operations	44,601	141,258
Other income (expense):		
Other income (expense), net	<u>4,091</u>	<u>(141)</u>
Total other income (expense)	<u>4,091</u>	<u>(141)</u>
Income before provision for income taxes	48,692	141,117
Provision for income taxes	<u>27,500</u>	<u>31,200</u>
Income from continuing operations	21,192	109,917
Discontinued operations:		
Loss from discontinued operations, net of tax of \$0	<u>-</u>	<u>(557,086)</u>
Net income (loss)	<u>\$ 21,192</u>	<u>\$ (447,169)</u>
Earnings per share - Basic:		
Income from continuing operations	\$ 0.00	\$ 0.03
Discontinued operations	<u>-</u>	<u>(0.13)</u>
Net income (loss)	<u>\$ 0.00</u>	<u>\$ (0.10)</u>
Earnings per share - Diluted:		
Income from continuing operations	\$ 0.00	\$ 0.03
Discontinued operations	<u>-</u>	<u>(0.12)</u>
Net income (loss)	<u>\$ 0.00</u>	<u>\$ (0.09)</u>
Weighted average shares outstanding - Basic	4,269,610	4,270,610
Weighted average shares outstanding - Diluted	4,673,610	4,840,854

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2013 and 2012

	Common Stock		Accumulated	Accumulated	Total
	Shares	Amount	Deficit	Other Comprehensive Income (Loss)	Stockholders' Equity
Balance, December 31, 2011	4,272,610	\$ 3,269,122	\$(1,121,984)	\$ 8,778	\$ 2,155,916
Net loss		-	(447,169)	-	(447,169)
Foreign currency translation		-	-	7,313	7,313
Comprehensive loss					(439,856)
Common stock redemption	(3,000)	(400)	-	-	(400)
Stock option expense		5,030	-	-	5,030
Balance, December 31, 2012	4,269,610	3,273,752	(1,569,153)	16,091	1,720,690
Net income		-	21,192	-	21,192
Foreign currency translation		-	-	(36,773)	(36,773)
Comprehensive loss					(15,581)
Stock option expense		2,410	-	-	2,410
Balance, December 31, 2013	<u>4,269,610</u>	<u>\$ 3,276,162</u>	<u>\$(1,547,961)</u>	<u>\$ (20,682)</u>	<u>\$ 1,707,519</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income (loss)	\$ 21,192	\$ (447,169)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	695,299	541,650
Stock option expense	2,410	5,030
Deferred income tax benefit	-	4,000
Changes in operating assets and liabilities	<u>365,073</u>	<u>(540,258)</u>
Net cash provided by (used in) continuing operations	1,083,974	(436,747)
Net cash provided by discontinued operations	<u>-</u>	<u>557,086</u>
Net cash provided by operating activities	1,083,974	120,339
 Cash flows from investing activities:		
Acquisitions of equipment	(139,300)	(39,621)
Capitalized software development	<u>(616,465)</u>	<u>(391,153)</u>
Net cash used in investing activities	(755,765)	(430,774)
 Cash flows from financing activities:		
Payments on long-term debt	(19,509)	(11,944)
Common stock redemption	<u>-</u>	<u>(400)</u>
Net cash used in financing activities	(19,509)	(12,344)
 Effect of exchange rate changes on cash	<u>(36,773)</u>	<u>7,313</u>
Net increase (decrease) in cash	271,927	(315,466)
 Cash and cash equivalents, beginning of year	<u>295,070</u>	<u>610,536</u>
Cash and cash equivalents, end of year	<u>\$ 566,997</u>	<u>\$ 295,070</u>
 Supplemental disclosure on non-cash transactions:		
Equipment acquired with long-term debt	<u>\$ 84,797</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

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., A-G Canada, Ltd. and AgentLegal Inc., 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 State 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.

AgentLegal Inc., a corporation formed in 2010, provides software products and services to customers in the legal community primarily in California. See Note 2.

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

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 arrangements, 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 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.

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AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

1. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Non-recurring revenues for installation, training and other non-recurring services are recognized as services are completed for the customer.

Foreign currency translation

Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are recorded to other comprehensive (loss) 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 2013 and 2012 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, 2013 and 2012, 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, restricted cash, 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. At December 31, 2013 and 2012, the Company had \$286,698 and \$303,025, respectively, of restricted cash classified as a current asset. The restricted cash serves as collateral for the line of credit (LOC) that provides financial assurance that the company will fulfill its obligations with respect to repayments of amounts advanced from the LOC. See Note 3 for LOC details. The cash is held in custody by the issuing bank, is restricted as to withdrawal or use, and is currently invested in money market funds. Income from these investments is paid to the Company.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

1. Summary of significant accounting policies (continued)

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.

Deferred revenue

The Company receives advance deposits from customers per the contracts with individual customers. These contract deposit amounts are for services that will be provided at some time in the future and are considered non-refundable. Revenues for which payment has been received in advance are treated as deferred revenue until services are provided and the revenues have been earned. Customer advance deposits were approximately \$1,037,000 and \$981,000 at December 31, 2013 and 2012, respectively.

Software

Software is recorded at historical cost. Software at December 31 consists of the following:

	<u>2013</u>	<u>2012</u>
Capitalized software	\$ 11,983,722	\$ 11,371,821
Less, accumulated amortization	<u>10,238,537</u>	<u>9,662,920</u>
Capitalized software, net	<u>\$ 1,745,185</u>	<u>\$ 1,708,901</u>

Certain costs incurred related to the development and purchase of computer software, for the purpose of generating recurring and non-recurring revenues, 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 50% - 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 websites are expensed 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.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

1. Summary of significant accounting policies (continued)

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 method.

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

Computer equipment	5 years
Furniture and fixtures	3 - 10 years
Other equipment	3 - 5 years
Leasehold improvements	3 - 10 years

Equipment at December 31 consists of the following:

	<u>2013</u>	<u>2012</u>
Computer equipment	\$ 1,662,627	\$ 1,639,779
Furniture and fixtures	404,246	333,026
Other equipment	322,454	236,033
Leasehold improvements	<u>50,657</u>	<u>15,703</u>
	2,439,984	2,224,541
Less accumulated depreciation and amortization	<u>2,057,694</u>	<u>1,951,230</u>
Equipment, net	<u>\$ 382,290</u>	<u>\$ 273,311</u>

Impairment of long-lived assets

In accordance with FASB Accounting Standards Codification ("ASC") 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, 2013 and 2012.

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.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

1. Summary of significant accounting policies (continued)

Earnings per share (continued)

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

	<u>Net income (loss)</u>	<u>Shares</u>	<u>Per share</u>
<u>Year ended December 31, 2013</u>			
Basic earnings per share			
Net income available to common stockholders	\$ 21,192	4,269,610	\$ 0.00
Effect of dilutive securities stock options	-	404,000	
Diluted earnings per share			
Net income available to common stockholders	\$ 21,192	4,673,610	\$ 0.00
 <u>Year ended December 31, 2012</u>			
Basic earnings per share			
Net loss available to common stockholders	\$ (447,169)	4,270,610	\$ (0.10)
Effect of dilutive securities stock options	-	570,244	
Diluted earnings per share			
Net loss available to common stockholders	\$ (447,169)	4,840,854	\$ (0.09)

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 operations 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, 2013 and 2012, was approximately \$1,000 and \$5,000, respectively, and is included in general and administrative expense. For the years ended December 31, 2013 and 2012, 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, 2013 and 2012

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 8)

Comprehensive (loss) income

Comprehensive (loss) 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.

Supplemental disclosure of cash flow information

The Company paid net interest expense for the years ended December 31, 2013 and 2012 of \$1,699 and \$1,977, respectively. The Company paid income taxes in the amount of approximately \$6,000 and \$20,000 in 2013 and 2012, respectively.

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. The federal income tax returns for the years ended December 31, 2010, 2011, 2012 and 2013 are open to audit. The California tax returns for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 are open to audit.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

1. Summary of significant accounting policies (continued)

Concentrations

During the years ended December 31, 2013 and 2012, there were two and one customer accounts, respectively, which represented more than 10% of the Company's net sales. There were three customer accounts which represent more than 10% of the Company's accounts receivable as of December 31, 2013 and 2012 and all accounts were subsequently collected after year end.

Discontinued operations

In accordance with FASB ASC 205, *Presentation of Financial Statements*, which establishes rules for the reporting and display of discontinued operations, the Company has determined that its AgentLegal subsidiary meets the criteria for being reported as a discontinued operation and has been segregated from continuing operations. See Note 2 for detail.

2. Discontinued operations

Effective December 31, 2012, the Company decided to discontinue operations at its AgentLegal subsidiary, a software product and service provider to customers in the legal community primarily in California, and ceased operations. The company decided to close this subsidiary primarily because it had incurred significant operating losses in each of the last three years and because the subsidiary has not been able to obtain the sales and growth anticipated. AgentLegal sales, reported in discontinued operations, for the years ended December 31, 2013 and 2012, were \$0. AgentLegal's loss net of tax of \$0, reported in discontinued operations, for the year ended December 31, 2012 was \$557,086. Effective October 17, 2013, AgentLegal filed a certificate of dissolution with the State of Nevada.

3. Line of credit

The Company has a bank revolving line of credit agreement, which matures on January 1, 2015 and provides for maximum borrowings up to \$250,000 at rates varying from Prime (as published in the Western Edition Wall Street Journal) plus 1%, but not less than 5% at any time (5% at December 31, 2013).

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 members of the Company. The Company is required to maintain a cash balance of \$300,000 Canadian Dollars (CAD) in certificates of deposits as compensating balances to collateralize the line of credit. The Company had no outstanding balances on this line of credit as of December 31, 2013.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

4. Long-term debt

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

	<u>2013</u>	<u>2012</u>
Note payable to creditor, payable in monthly payments of \$995 with 0% interest. The note matures on November 2016 and is secured by equipment.	\$ 34,839	\$ 46,784
Note payable to creditor, payable in monthly payments of \$1,464 with 4.54% interest. The note matures on November 2018 and is secured by equipment.	<u>77,233</u>	<u>-</u>
	<u>112,072</u>	46,784
Less, current portion of long-term debt	<u>26,352</u>	<u>11,945</u>
Total long-term portion of debt	<u>\$ 85,720</u>	<u>\$ 34,839</u>

The annual maturities of long-term debt for the years ended December 31 are as follows:

2014	\$ 26,352
2015	26,926
2016	26,636
2017	16,424
2018	<u>15,734</u>
Total	<u>\$ 112,072</u>

5. Income taxes

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

<u>Current income taxes based on income</u>		
Federal	\$ -	\$ -
State	27,500	27,200
Foreign	<u>-</u>	<u>-</u>
Total current income tax provision	<u>27,500</u>	<u>27,200</u>
<u>Deferred income taxes based on income</u>		
Federal	-	4,000
State	-	-
Foreign	<u>-</u>	<u>-</u>
Total deferred income tax (benefit) provision	<u>-</u>	<u>4,000</u>
Total income tax provision	<u>\$ 27,500</u>	<u>\$ 31,200</u>

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

5. Income taxes (continued)

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

	2013	2012
Statutory rate	34%	34%
Statutory U.S. Federal income tax	\$ 17,000	\$ (141,000)
Permanent differences	5,000	8,000
State tax, net of federal benefit	18,000	23,000
Change in federal valuation allowance	(32,000)	116,000
Adjustments in foreign tax and other	19,500	25,200
Total income tax provision	\$ 27,500	\$ 31,200

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

Current deferred income taxes

Bad debts/accrued vacation/other	\$ 105,000	\$ 174,000
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Non-current deferred income taxes

Deferred income tax assets:

Net operating loss	760,000	837,000
Fixed assets/other	(251,000)	(306,000)
	509,000	531,000
Valuation allowance	(614,000)	(705,000)
Net non-current deferred income tax assets	(105,000)	(174,000)

Deferred income tax liabilities:

Tax over book amortization and depreciation	-	-
Net non-current deferred income tax liabilities	(105,000)	(174,000)

Net deferred income taxes	\$ -	\$ -
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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, 2013 and 2012 reflects an unrecognized U.S. and foreign tax loss carryforward. At December 31, 2013, the Company had available net operating loss carryforwards of \$1,873,000 for federal income tax purposes, \$527,000 for state income tax purposes and \$172,000 for foreign income tax purposes. These net operating loss carryforwards expire from 2020 to 2030 for federal taxes, 2014 to 2030 for state taxes, and 2014 to 2016 for foreign taxes.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

6. Commitments and contingencies

The Company leases its corporate office facility from an independent third party. The six-year building lease expires January 31, 2019. Rental expense was \$176,000 and \$302,000 for the years ended December 31, 2013 and 2012, respectively.

The Company leases server management services from an independent third party. The two year lease expires October 15, 2014. Rental expense was \$114,000 and \$13,000 for the years ended December 31, 2013 and 2012, respectively.

The Company leases a storage facility on a month to month basis from an independent third party. Rental expense was \$25,000 and \$19,000 for the years ended December 31, 2013 and 2012, respectively.

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

2014	\$ 225,000
2015	135,000
2016	139,000
2017	143,000
2018	148,000
Thereafter	<u>50,000</u>
Total minimum lease payments	<u>\$ 840,000</u>

7. Related party transactions

The Company paid to directors a total of \$50,000 and \$71,900 in director fees and expenses for the years ended December 31, 2013 and 2012, respectively.

8. Stockholders' equity

2002 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, 2013 and 2012, the Company's total compensation expense recorded from inception-to-date (net of tax) was approximately \$38,000 and \$36,000, respectively.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

8. Stockholders' equity (continued)

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:

	<u>2013</u>	<u>2012</u>
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	\$ 0.14	\$ 0.14

All options granted were at the fair market price.

Transactions involving stock options for the years ended December 31, 2013 and 2012 are summarized as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 2011	590,000	\$ 0.47
Granted	115,000	0.58
Forfeited	<u>(200,000)</u>	-
Balance at December 31, 2012	505,000	0.43
Granted	-	-
Forfeited	<u>(262,000)</u>	-
Balance at December 31, 2013	<u>243,000</u>	<u>\$ 0.43</u>

Additional information with respect to the outstanding options as of December 31, 2013 is as follows:

<u>Option Exercise Price Range</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number of Shares</u>	<u>Average Remaining Contractual Life (Yrs.)</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Shares</u>	<u>Average Exercise Price</u>
\$0.10 to 0.29	105,000	8.90	\$ 0.11	35,000	\$ 0.11
\$0.30 to 0.49	60,000	5.06	0.40	49,333	0.41
\$0.50 to 0.69	45,000	4.63	0.53	45,000	0.53
\$0.70 to 0.99	<u>33,000</u>	4.38	0.80	<u>33,000</u>	0.80
	<u>243,000</u>	6.19	\$ 0.43	<u>162,333</u>	\$ 0.46

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

9. 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 \$20,000 and \$22,000 for the years ended December 31, 2013 and 2012, respectively.

10. 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:

	<u>2013</u>	<u>2012</u>
(Increase) decrease in assets:		
Restricted cash	\$ 16,327	\$ (303,025)
Accounts receivable, net	183,648	(23,012)
Other current assets	95,812	18,963
Increase (decrease) in liabilities:		
Accounts payable, trade	16,491	(39,282)
Deferred revenue	56,898	(145,722)
Accrued payroll and related liabilities	(54,677)	62,179
Other accrued liabilities	50,574	(110,359)
	<u>\$ 365,073</u>	<u>\$ (540,258)</u>

11. Subsequent events

Management has evaluated subsequent events through May 20, 2014, the date on which the consolidated financial statements were available to be issued.