Annual Report

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Agent Information Software, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the financial statements of Agent Information Software, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Agent Information Software, Inc. and its subsidiaries as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Agent Information Software, Inc. and its subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Agent Information Software, Inc. and its subsidiaries' ability to continue as a going concern for one year after the date that the financial statements are issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Agent Information Software, Inc. and its subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Agent Information Software, Inc. and its subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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

Swenson Corporation

SWENSON CORPORATION

March 30, 2023

AGENT INFORMATION SOFTWARE, INC.

Consolidated Balance Sheets

December 31, 2022 and 2021

ASSETS

	2022	2021
Current assets:		
Cash and cash equivalents	**$ 1,895,248**	$ 2,816,869
Accounts receivable, trade, net of allowance of $7,250	**816,302**	276,020
Other receivable	**645,978**	-
Other current assets	**231,753**	236,377
Income taxes receivable	**-**	63,101
Total current assets	**3,589,281**	3,392,367
Computer software, net	**2,516,137**	2,038,632
Equipment, net	**176,252**	333,119
Operating right-of-use asset	**53,743**	-
Deposits	**3,132**	17,740
Total assets	**$ 6,338,545**	$ 5,781,858

See accompanying notes to consolidated financial statements.

Swenson

AGENT INFORMATION SOFTWARE, INC.

Consolidated Balance Sheets

December 31, 2022 and 2021

LIABILITIES AND STOCKHOLDERS' EQUITY

	2022	2021
Current liabilities:		
Accounts payable, trade	$ 34,687	$ 41,939
Deferred revenue	1,861,985	1,588,659
Accrued payroll and related liabilities	197,492	176,143
Other accrued liabilities	131,738	85,654
Lease liability, current portion	40,212	-
Income taxes payable	101,429	-
Total current liabilities	2,367,543	1,892,395
Deferred income taxes	51,000	122,000
Lease liability, long-term portion	13,531	-
Total liabilities	2,432,074	2,014,395
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, $0.001 par value, 12,000,000 shares authorized, 4,682,910 (2022 and 2021) shares issued and outstanding	3,554,724	3,536,098
Preferred stock, $0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Accumulated other comprehensive loss	(200,065)	(113,115)
Retained earnings	551,812	344,480
Total stockholders' equity	3,906,471	3,767,463
Total liabilities and stockholders' equity	$ 6,338,545	$ 5,781,858

See accompanying notes to consolidated financial statements.

Swenson

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Income

For the Years Ended December 31, 2022 and 2021

	2022	2021
Sales:		
Recurring sales	**5,157,143**	$ 5,148,743
Non-recurring sales	**101,395**	38,095
Total net sales	**5,258,538**	5,186,838
Costs and expenses:		
Cost of sales	**1,678,943**	1,801,677
Development/Information technology	**52,710**	297,869
Sales, marketing, and customer service	**1,936,821**	2,007,125
General and administrative	**1,109,418**	1,300,700
Total costs and expenses	**4,777,892**	5,407,371
Income (loss) from operations	**480,646**	(220,533)
Other income, net	**2,588**	126,806
Income (loss) before provision for income taxes	**483,234**	(93,727)
Provision (benefit) for income tax	**112,000**	(95,000)
Net income	**$ 371,234**	$ 1,273
Earnings per share:		
Basic income per share	**$ 0.08**	$ 0.00
Weighted average shares outstanding	**4,682,910**	4,682,910
Diluted income per share	**$ 0.07**	$ 0.00
Weighted average shares outstanding	**5,512,910**	5,205,577

See accompanying notes to consolidated financial statements.

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AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2022 and 2021

	2022	2021
Net income	**$ 371,234**	$ 1,273
Other comprehensive gain (loss):		
Foreign currency translation adjustments	**(86,950)**	(16,906)
Other comprehensive gain	**(86,950)**	(16,906)
Total comprehensive (loss) income	**$ 284,284**	$ (15,633)

See accompanying notes to consolidated financial statements.

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AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Changes in Stockholders' Equity

December 31, 2022 and 2021

	Common Stock		Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Earnings	Loss	Equity
Balance, December 31, 2020	4,484,577	$ 3,400,494	$ 500,517	$ (96,209)	$ 3,804,802
Net income			1,273		1,273
Foreign currency translation				(16,906)	(16,906)
Comprehensive income					(15,633)
Common stock dividends			(157,310)	-	(157,310)
Common stock issuance	198,333	112,750	-	-	112,750
Stock option expense		22,854	-	-	22,854
Balance, December 31, 2021	4,682,910	3,536,098	344,480	(113,115)	3,767,463
Net income			**371,234**		**371,234**
Foreign currency translation				**(86,950)**	**(86,950)**
Comprehensive (loss)					**284,284**
Common stock dividends			**(163,902)**	**-**	**(163,902)**
Stock option expense		**18,626**	**-**	**-**	**18,626**
Balance, December 31, 2022	**4,682,910**	**$ 3,554,724**	**$ 551,812**	**$ (200,065)**	**$ 3,906,471**

See accompanying notes to consolidated financial statements.

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AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income	**$ 371,234**	$ 1,273
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	**784,078**	1,278,050
Stock option expense	**18,626**	22,854
Deferred income tax expense	**(71,000)**	(135,000)
Gain on disposal of fixed assets	**106,799**	(98,145)
Changes in operating assets and liabilities	**(668,991)**	24,080
Net cash provided by operating activities	**540,746**	1,093,112
Cash flows from investing activities:		
Acquisitions of equipment	**(29,369)**	(92,885)
Proceeds from sale of fixed assets	**1,280**	158,000
Capitalized software development	**(1,183,426)**	(1,028,051)
Net cash used in investing activities	**(1,211,515)**	(962,936)
Cash flows from financing activities:		
Common stock dividends paid	**(163,902)**	(157,310)
Common stock issuance	**-**	112,750
Net cash used in financing activities	**(163,902)**	(44,560)
Effect of exchange rate change on cash	**(86,950)**	(16,906)
Net (decrease) increase in cash	**(921,621)**	68,710
Cash and cash equivalents, beginning of year	**2,816,869**	2,748,159
Cash and cash equivalents, end of year	**$ 1,895,248**	$ 2,816,869
Supplemental disclosure on cash transactions:		
Cash paid during the year for income taxes	**$ 18,470**	$ 136,104
Operating cash flows from operating leases	**$ 112,830**	$ -
Supplemental disclosure of non-cash investing and financing information:		
Adoption of FASB ASC 842 operating right-of-use assets exchanged for operating lease liabilities	**$ 610,391**	$ -

See accompanying notes to consolidated financial statements.

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1. Summary of significant accounting policies

Nature of Business

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 Unites 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)

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 2022 and 2021 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, 2022 and 2021, 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

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, the carrying value of cash, accounts receivable, and accounts payable approximates fair value.

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, 2022 and 2021.

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

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. Total deferred revenue was $1,861,985 and $1,588,659 at December 31, 2022 and 2021, respectively.

(Continued)

1. Summary of significant accounting policies (continued)

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 five 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

Repairs and maintenance are expensed as incurred and renewals or betterments are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation or amortization, are eliminated from the accounts in the year of disposal. Any associated gain or loss is included in income (loss) from operations in the consolidated statements of comprehensive income.

Equipment at December 31 consists of the following:

	2022	2021
Computer equipment	**$ 115,632**	$ 102,043
Furniture and fixtures	**11,932**	170,934
Other equipment	**243,264**	265,803
Leasehold improvements	**24,850**	73,382
	395,678	612,162
Less accumulated depreciation and amortization	**219,426**	279,042
Equipment, net	**$ 176,252**	$ 333,119

(Continued)

1. Summary of significant accounting policies (continued)

Equipment (continued)

For the years ended December 31, 2022 and 2021, depreciation expense was $78,158 and $60,389, respectively.

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, 2022 and 2021.

Dividends

The Company declared and paid cash dividends per share during the year ended December 31, 2022 and 2021, totaling $163,902 and $157,310, respectively. Future dividends are subject to declaration by the Board of Directors.

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:

	Net income	Shares	Per share
Year ended December 31, 2022			
Basic earnings per share			
Net income available to common stockholders	**$ 371,234**	**4,682,910**	**$ 0.08**
Effect of dilutive securities stock options	**-**	**746,667**	
Diluted earnings per share			
Net income available to common stockholders	**$ 371,234**	**5,429,577**	**$ 0.07**
Year ended December 31, 2021			
Basic earnings per share			
Net income available to common stockholders	$ 1,273	4,592,077	$ 0.00
Effect of dilutive securities stock options	-	666,750	
Diluted earnings per share			
Net income available to common stockholders	$ 1,273	5,258,827	$ 0.00

(Continued)

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1. Summary of significant accounting policies (continued)

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, 2022 and 2021 was approximately $19,000 and $23,000, respectively, and is included in general and administrative expense. For the years ended December 31, 2022 and 2021, 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)

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.

(Continued)

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1. Summary of significant accounting policies (continued)

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 years ended December 31, 2022 and 2021, there was one customer account which represented more than 10% of the Company's net sales. There were three and five customer accounts which represented more than 10% of the Company's accounts receivable as of December 31, 2022 and 2021, respectively, and all accounts were subsequently collected after year end.

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1. Summary of significant accounting policies (continued)

Leases

The Company leases office/warehouse space and equipment. The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Company uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain leases, such as office/warehouse space, the Company accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, and or real estate taxes that are passed on from the lessor in proportion to the space leased, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The Company has elected to apply the short-term lease exemption to one of the classes of underlying assets: *office equipment.* In 2022, there were no leases within this class of underlying assets that qualified for the exemption.

In evaluating contracts to determine if they qualify as a lease, the Company consider factors such as if the Company has obtained substantially all of the rights to the underlying asset through exclusivity, if the Company can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

The Company has made an accounting policy to apply a risk-free rate as the discount rate used to measure lease liabilities and right-of-use assets at commencement of a lease. A risk-free rate has been applied to one or more classes of underlying leased assets. For other classes of underlying leased assets, the Company applies the interest rate implicit in the lease, if available, or the Company's incremental borrowing rate.

(Continued)

Swenson

1. Summary of significant accounting policies (continued)

Recently adopted accounting standards

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the standard effective January 1, 2022, and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021, are made under prior lease guidance in FASB ASC 840.

The Company elected the available practical expedients to account for the existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2022, beginning of the year of adoption, a lease liability of $634,692, which represents the present value of the remaining operating lease payments of $646,013, discounted using their incremental borrowing rate of 1%, and a right-of-use asset of $610,391, which represents the operating lease liability of $634,692. There was $24,301 of accrued rent and there was no initial direct costs. The difference between the additional lease assets and lease liabilities, net of the deferred tax impact, was recorded as an adjustment to retained earnings. There were no capital lease right of use assets to be recognized.

The standard had a material impact on the balance sheets, but did not have an impact on the statement of income statements, nor statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. The Company does not have any financing leases; however, the accounting for finance leases remains substantially unchanged.

2. Computer software

Computer software as of December 31, 2022 and 2021 consists of the following:

	2022	2021
Computer software	**$ 6,094,942**	$ 4,911,516
Less, accumulated amortization	**3,578,805**	2,872,884
Computer software, net	**$ 2,516,137**	$ 2,038,632

For the years ended December 31, 2022 and 2021, amortization expense was $705,920 and $1,217,661, respectively.

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 7.00% at any time (8.00% at December 31, 2022). The line of credit matures on October 25, 2023.

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, 2022.

4. Income taxes

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

	2022	2021
Current income taxes based on income		
Federal	**$ 157,000**	$ 25,000
State	**26,000**	15,000
Foreign	**-**	-
Total current income tax expense	**183,000**	40,000
Deferred income taxes based on income		
Federal	**(65,000)**	(100,000)
State	**(6,000)**	(41,000)
Foreign	**-**	6,000
Total deferred income tax expense	**(71,000)**	(135,000)
Total income tax expense	**$ 112,000**	$ (95,000)

(Continued)

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4. Income taxes (continued)

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

	2022	2021
Statutory rate	**21%**	21%
Statutory U.S. Federal income tax	**$ 101,000**	$ (20,000)
Permanent differences	**17,000**	(43,000)
State tax, net of federal tax	**16,000**	(21,000)
Adjustments in foreign tax and other	**(22,000)**	(11,000)
Total income tax expense	**$ 112,000**	$ (95,000)

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

	2022	2021
Deferred income tax assets		
Bad debts/accrued vacation/other	**$ 34,000**	$ 46,000
Net operating loss	**81,000**	34,000
Fixed assets/other	**14,000**	51,000
	129,000	131,000
Valuation allowance	**(92,000)**	(50,000)
	37,000	81,000
Deferred income tax liabilities:		
Tax over book amortization and depreciation	**(88,000)**	(203,000)
Net deferred income taxes	**$ (51,000)**	$ (122,000)

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, 2022 and 2021 reflects an unrecognized U.S. and foreign tax loss carryforward. At December 31, 2022 and 2021, the Company had available net operating loss carryforwards of $194,000 and $176,000 for state and foreign income tax purposes, respectively. These net operating loss carryforwards expire from 2030 to 2031 and 2034 to 2037 for state and foreign taxes, respectively.

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5. Leases

The Company had two operating leases that ranged from two to six years. The leases had remaining lease terms from 4 months up to 31 months. Certain leases provide for renewal options for periods of one to five years at their fair rental value at the time of renewal. The Company evaluates the need for renewal prior to the renewal notification date to determine if the renewal is necessary. The Company does not have any financing leases.

The Company terminated its primary office lease effective July 15, 2022. At December 31, 2022, the Company has a single operating storage lease. As of December 31, 2022, the operating lease ROU assets and operating lease liabilities related to these agreements were $51,035 and $53,743, respectively. The total lease expense under these agreements was approximately $113,000 and $174,000 for fiscal 2022 and 2021, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2022, for each of the next five years and in the aggregate are:

Year ended December 31:	Amount
2023	$ 40,548
2024	13,516
2025	-
Subsequent to 2025	-
Total minimum future rental payments	$ 54,064

The weighted average remaining lease term (in years) for operating leases was one year and the weighted average discount rate applied was 1%.

Following is a maturity analysis of annual undiscounted cash flows for lease liabilities as of the end of 2022:

Maturing in year:	Operating Leases
2023	$ 40,548
2024	13,516
2025	-
Maturing in the aggregate after 2025	-
Total	54,064
Interest expense	(321)
Amounts recognized in the balance sheet	$ 53,743

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6. Related party transactions

The Company paid to directors a total of $96,000 and $96,000 in director fees for the years ended December 31, 2022 and 2021, respectively.

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.

2020 Qualified and non-qualified stock option plan

The Company adopted a qualified and non-qualified stock option plan on January 28, 2020 for 500,000 options.

Under the plans, 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, 2022 and 2021, the Company's total compensation expense recorded from inception-to-date (net of tax) was approximately $147,000 and $130,000, 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:

	2022	2021
Expected life	**5 years**	5 years
Risk-free interest rate	**3.3%**	3.3%
Expected volatility	**30%**	30%
Dividend yield	**3%**	3%
Fair value of options granted at fair market price	**$ 0.47**	$ 0.39

All options granted were at the fair market price.

(Continued)

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7. Stockholders' equity (continued)

Transactions involving stock options for the years ended December 31, 2022 and 2021 are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2020	752,333	$ 0.51
Granted	50,000	2.16
Exercised	(198,333)	-
Forfeited	(14,000)	-
Balance at December 31, 2021	590,000	0.60
Granted	**250,000**	**1.90**
Exercised	**-**	**-**
Forfeited	**(10,000)**	**-**
Balance at December 31, 2022	**830,000**	**$ 0.81**

Additional information with respect to the stock options outstanding and exercisable as of December 31, 2022 is as follows:

	Options Outstanding			Options Exercisable	
Option Exercise Price Range	Number of Shares	Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price	Number of Shares	Average Exercise Price
$0.30 to 0.49	60,000	3.25	$0.36	60,000	$0.36
$0.50 to 0.69	315,000	4.52	0.50	315,000	0.50
$0.70 to 0.89	30,000	5.65	0.81	30,000	0.81
$1.70 to 1.89	95,000	7.23	1.82	58,000	1.83
$1.90 to 2.09	250,000	9.44	1.90	-	0.00
$2.10 to 2.19	50,000	8.47	2.16	10,000	2.16
$2.30 to 2.49	30,000	7.83	2.36	12,000	2.36
	830,000	6.62	$0.81	485,000	$0.74

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 $75,000 and $34,000 for the years ended December 31, 2022 and 2021, 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:

	2022	2021
(Increase) decrease in assets:		
Accounts receivable, net	**$ (540,282)**	$ 237,558
Other receivable	**(645,978)**	-
Other current assets and deposits	**19,232**	(56,953)
Income taxes receivable	**63,101**	(63,101)
Increase (decrease) in liabilities:		
Accounts payable, trade	**(7,252)**	28,124
Deferred revenue	**273,326**	(52,059)
Accrued payroll and related liabilities	**21,349**	(27,904)
Other accrued liabilities	**46,084**	(8,592)
Income taxes payable	**101,429**	(32,993)
	$ (668,991)	$ 24,080

10. Subsequent events

Management has evaluated subsequent events through March 30, 2023, the date on which the consolidated financial statements were available to be issued.

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