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Annual Report

December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the 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.



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 31, 2024

AGENT INFORMATION SOFTWARE, INC.

Consolidated Balance Sheets

December 31, 2023 and 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 2,712,397	\$ 1,895,248
Accounts receivable, trade, net of allowance of \$7,250	536,194	834,932
Other receivable	-	645,978
Other current assets	<u>256,318</u>	<u>213,123</u>
Total current assets	3,504,909	3,589,281
Computer software, net	2,898,217	2,516,137
Equipment, net	112,744	176,252
Operating right-of-use asset, net	12,854	53,743
Deferred income tax asset, net	40,000	-
Deposits	3,132	3,132
Total assets	<u>\$ 6,571,856</u>	<u>\$ 6,338,545</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Balance Sheets

December 31, 2023 and 2022

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2023</u>	<u>2022</u>
Current liabilities:		
Accounts payable, trade	\$ 40,940	\$ 34,687
Deferred revenue	2,048,316	1,861,985
Accrued payroll and related liabilities	157,816	197,492
Other accrued liabilities	60,183	131,738
Lease liability, current portion	13,387	40,212
Income taxes payable	250,579	101,429
Total current liabilities	<u>2,571,221</u>	<u>2,367,543</u>
Deferred income tax liability, net	-	51,000
Lease liability, long-term portion	-	13,531
Total liabilities	<u>2,571,221</u>	<u>2,432,074</u>
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, \$0.001 par value, 12,000,000 shares authorized, 4,681,910 and 4,682,910 (2023 and 2022) shares issued and outstanding	3,572,291	3,554,724
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Accumulated other comprehensive loss	(163,446)	(200,065)
Retained earnings	591,790	551,812
Total stockholders' equity	<u>4,000,635</u>	<u>3,906,471</u>
Total liabilities and stockholders' equity	<u>\$ 6,571,856</u>	<u>\$ 6,338,545</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Income

For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Sales:		
Recurring sales	\$ 5,247,495	\$ 5,157,143
Non-recurring sales	<u>161,290</u>	<u>101,395</u>
Total net sales	5,408,785	5,258,538
Costs and expenses:		
Cost of sales	1,451,665	1,678,943
Development/Information technology	1,704	52,710
Sales, marketing, and customer service	2,124,500	1,936,821
General and administrative	<u>1,582,635</u>	<u>1,109,418</u>
Total costs and expenses	<u>5,160,504</u>	<u>4,777,892</u>
Income from operations	248,281	480,646
Other income, net	<u>20,599</u>	<u>2,588</u>
Income before provision for income taxes	268,880	483,234
Provision for income tax	<u>65,000</u>	<u>112,000</u>
Net income	<u>\$ 203,880</u>	<u>\$ 371,234</u>
Earnings per share:		
Basic income per share	\$ 0.04	\$ 0.08
Weighted average shares outstanding	4,681,910	4,682,910
Diluted income per share	\$ 0.04	\$ 0.07
Weighted average shares outstanding	5,596,910	5,512,910

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net income	\$ 203,880	\$ 371,234
Other comprehensive gain (loss):		
Foreign currency translation adjustments	<u>36,619</u>	<u>(86,950)</u>
Other comprehensive gain	<u>36,619</u>	<u>(86,950)</u>
Total comprehensive income	<u>\$ 240,499</u>	<u>\$ 284,284</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Changes in Stockholders' Equity

December 31, 2023 and 2022

	<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other</u>	<u>Stockholders'</u>
				<u>Comprehensive</u>	<u>Equity</u>
				<u>Loss</u>	
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 income					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
Net income			203,880		203,880
Foreign currency translation				36,619	36,619
Comprehensive income					240,499
Common stock dividends			(163,902)	-	(163,902)
Common stock redemption	(1,000)	(1,770)	-	-	(1,770)
Stock option expense		19,337	-	-	19,337
Balance, December 31, 2023	<u>4,681,910</u>	<u>\$ 3,572,291</u>	<u>\$ 591,790</u>	<u>\$ (163,446)</u>	<u>\$ 4,000,635</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	\$ 203,880	\$ 371,234
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	857,454	784,078
Operating right-of-use amortization	40,889	-
Stock option expense	19,337	18,626
Deferred income tax expense	(91,000)	(71,000)
Gain on disposal of fixed assets	-	106,799
Changes in operating assets and liabilities	<u>1,132,024</u>	<u>(668,991)</u>
Net cash provided by operating activities	2,162,584	540,746
Cash flows from investing activities:		
Acquisitions of equipment	(1,380)	(29,369)
Proceeds from sale of fixed assets	-	1,280
Capitalized software development	<u>(1,174,646)</u>	<u>(1,183,426)</u>
Net cash used in investing activities	(1,176,026)	(1,211,515)
Cash flows from financing activities:		
Payments on lease liabilities	(40,356)	-
Common stock dividends paid	(163,902)	(163,902)
Common stock redemption	<u>(1,770)</u>	<u>-</u>
Net cash used in financing activities	(206,028)	(163,902)
Effect of exchange rate change on cash	<u>36,619</u>	<u>(86,950)</u>
Net increase (decrease) in cash	817,149	(921,621)
Cash and cash equivalents, beginning of year	<u>1,895,248</u>	<u>2,816,869</u>
Cash and cash equivalents, end of year	<u>\$ 2,712,397</u>	<u>\$ 1,895,248</u>
Supplemental disclosure on cash transactions:		
Cash paid during the year for income taxes	<u>\$ 66,835</u>	<u>\$ 18,470</u>
Operating cash flows from operating leases	<u>\$ -</u>	<u>\$ 112,830</u>
Supplemental disclosure of non-cash investing and financing information:		
Adoption of FASB ASC 842 operating right-of-use assets exchanged for operating lease liabilities	<u>\$ -</u>	<u>\$ 610,391</u>

See accompanying notes to consolidated financial statements.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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 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, 2023 and 2022

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 2023 and 2022 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, 2023 and 2022, 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, 2023 and 2022.

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 \$2,048,316 and \$1,861,985 at December 31, 2023 and 2022, respectively.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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:

	<u>2023</u>	<u>2022</u>
Computer equipment	\$ 117,012	\$ 115,632
Furniture and fixtures	11,932	11,932
Other equipment	243,264	243,264
Leasehold improvements	24,850	24,850
	<u>397,058</u>	<u>395,678</u>
Less accumulated depreciation and amortization	284,314	219,426
Equipment, net	<u>\$ 112,744</u>	<u>\$ 176,252</u>

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

1. Summary of significant accounting policies (continued)

Equipment (continued)

For the years ended December 31, 2023 and 2022, depreciation expense was \$64,888 and \$35,347, 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, 2023 and 2022.

Dividends

The Company declared and paid cash dividends per share during the year ended December 31, 2023 and 2022, totaling \$163,902 and \$163,902, 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
<u>Year ended December 31, 2023</u>			
Basic earnings per share			
Net income available to common stockholders	\$ 203,880	4,681,910	\$ 0.04
Effect of dilutive securities stock options	-	887,917	-
Diluted earnings per share			
Net income available to common stockholders	\$ 203,880	5,569,827	\$ 0.04
<u>Year ended December 31, 2022</u>			
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

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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, 2023 and 2022, was approximately \$18,000 and \$19,000, respectively, and is included in general and administrative expense. For the years ended December 31, 2023 and 2022, 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 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.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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, 2023 and 2022, there was one customer account which represented more than 10% of the Company's net sales. There were three customer accounts which represented more than 10% of the Company's accounts receivable as of December 31, 2023 and 2022, and all accounts were subsequently collected after year end.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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 2023 and 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 considers 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)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

1. Summary of significant accounting policies (continued)

Advertising and promotional allowances

Advertising is expensed as incurred. For the years ended December 31, 2023 and 2022, advertising expenses were \$1,750 and \$0, respectively.

Accounting standards updates

In March 2023, the Financial Accounting Standards Board (FASB) issued update 2023-01 to the Accounting Standards Codification (ASC) 842, Leases standard, related to Common Control Arrangements. The update provides clarification related to leasehold improvements and their amortization by the lessee over the useful life of the leasehold improvements to the common control group (regardless of the lease term) as long as the lessee controls the use of the underlying asset (the leased asset) through a lease. The update also includes guidance on transfer of leasehold improvement when the lessee no longer controls the use of the underlying asset. The amendment is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted but must be made at the beginning of the reporting period. Management does not expect this update to have a material impact on the financial statements.

2. Computer software

Computer software as of December 31, 2023 and 2022, consists of the following:

	<u>2023</u>	<u>2022</u>
Computer software	\$ 7,269,588	\$ 6,094,942
Less, accumulated amortization	4,371,371	3,578,805
Computer software, net	<u>\$ 2,898,217</u>	<u>\$ 2,516,137</u>

For the years ended December 31, 2023 and 2022, amortization expense was \$792,566 and \$705,920, 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 (9.0% at December 31, 2023). The line of credit matures on October 25, 2024.

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 balance on this line of credit as of December 31, 2023.

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

4. Income taxes

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

	2023	2022
<u>Current income taxes based on income</u>		
Federal	\$ 143,000	\$ 157,000
State	13,000	26,000
Foreign	-	-
	156,000	183,000
<u>Deferred income taxes based on income</u>		
Federal	(69,000)	(65,000)
State	(22,000)	(6,000)
Foreign	-	-
	(91,000)	(71,000)
Total income tax expense	\$ 65,000	\$ 112,000

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

	2023	2022
Statutory rate	21%	21%
Statutory U.S. Federal income tax	\$ 56,000	\$ 101,000
Permanent differences	(6,000)	17,000
State tax, net of federal tax	(7,000)	16,000
Adjustments in foreign tax and other	22,000	(22,000)
Total income tax expense	\$ 65,000	\$ 112,000

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

	2023	2022
<u>Deferred income tax assets</u>		
Bad debts/accrued vacation/other	\$ 32,000	\$ 34,000
Net operating loss	57,000	81,000
Fixed assets/other	20,000	14,000
	109,000	129,000
Valuation allowance	(69,000)	(92,000)
	40,000	37,000
Deferred income tax liabilities:		
Tax over book amortization and depreciation	-	(88,000)
Net deferred income taxes	\$ 40,000	\$ (51,000)

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

4. Income taxes (continued)

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, 2023 and 2022 reflects an unrecognized U.S. and foreign tax loss carryforward. At December 31, 2023 and 2022, the Company had available net operating loss carryforwards of \$142,000 and \$194,000 for state and foreign income tax purposes, respectively. These net operating loss carryforwards expire from 2030 to 2032 and 2034 to 2038 for state and foreign taxes, respectively.

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 had a single operating storage lease. As of December 31, 2023 and 2022, the operating lease ROU assets related to these agreements were \$12,854 and \$53,743, respectively, and operating lease liabilities related to these agreements \$13,387 and \$53,743, respectively. The total lease expense under these agreements was approximately \$41,000 and \$113,000 for fiscal years 2023 and 2022, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2023, for each of the next five years and in the aggregate are:

<u>Year ended December 31:</u>	<u>Amount</u>
2024	\$ 13,558
2025	-
Subsequent to 2025	-
Total minimum future rental payments	<u>\$ 13,558</u>

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 2023:

<u>Maturing in year:</u>	<u>Operating Leases</u>
2024	\$ 13,558
2025	-
Maturing in the aggregate after 2025	-
Total	<u>13,558</u>
Interest expense	(171)
Amounts recognized in the balance sheet	<u>\$ 13,387</u>

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Notes to Consolidated Financial Statements

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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, 2023 and 2022, 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, 2023 and 2022, the Company's total compensation expense recorded from inception-to-date (net of tax) was approximately \$168,000 and \$147,000, 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:

	<u>2023</u>	<u>2022</u>
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	\$ 0.42	\$ 0.47

All options granted were at the fair market price.

(Continued)

AGENT INFORMATION SOFTWARE, INC.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

7. Stockholders' equity (continued)

Transactions involving stock options for the years ended December 31, 2023 and 2022 are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
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
Granted	95,000	1.45
Exercised	-	-
Forfeited	(10,000)	-
Balance at December 31, 2023	915,000	\$ 0.92

Additional information with respect to the stock options outstanding and exercisable as of December 31, 2023 is as follows:

Option Exercise Price Range	Options Outstanding			Options Exercisable	
	Number of Shares	Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price	Number of Shares	Average Exercise Price
\$0.30 to 0.49	60,000	2.33	\$0.36	60,000	\$0.36
\$0.50 to 0.69	305,000	3.6	0.50	305,000	0.50
\$0.70 to 0.89	30,000	4.72	0.81	30,000	0.81
\$1.30 to 1.49	95,000	9.44	1.45	-	0.00
\$1.70 to 1.89	95,000	6.31	1.82	70,333	1.83
\$1.90 to 2.09	250,000	8.52	1.90	50,000	1.90
\$2.10 to 2.19	50,000	7.55	2.16	20,000	2.16
\$2.30 to 2.49	30,000	6.91	2.36	18,000	2.36
	915,000	6.1	\$0.77	553,333	\$0.92

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 \$78,000 and \$75,000 for the years ended December 31, 2023 and 2022, respectively.

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Notes to Consolidated Financial Statements

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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:

	<u>2023</u>	<u>2022</u>
(Increase) decrease in assets:		
Accounts receivable, net	\$ 298,738	\$ (540,282)
Other receivable	645,978	(645,978)
Other current assets and deposits	(43,195)	19,232
Income taxes receivable	-	63,101
Increase (decrease) in liabilities:		
Accounts payable, trade	6,253	(7,252)
Deferred revenue	186,331	273,326
Accrued payroll and related liabilities	(39,676)	21,349
Other accrued liabilities	(71,555)	46,084
Income taxes payable	122,272	101,429
	<u>\$ 1,105,146</u>	<u>\$ (668,991)</u>

10. Subsequent events

Management has evaluated subsequent events through March 31, 2024, the date on which the consolidated financial statements were available to be issued.