

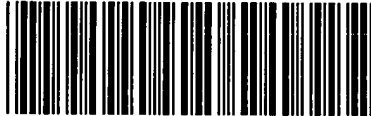
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Levi, Ray & Shoup, Inc. and Subsidiaries

Consolidated Financial Report
July 31, 2024

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RSM US LLP

Independent Auditor's Report

Stockholders
Levi, Ray & Shoup, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Levi, Ray & Shoup, Inc. and its Subsidiaries (the Company), which comprise the consolidated balance sheets—income tax basis as of July 31, 2024 and 2023, the related consolidated statements of income—income tax basis, stockholders' equity—income tax basis, and cash flows—income tax basis for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of July 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with the basis of accounting the Company uses for income tax purposes described in Note 1.

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 the Company 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.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

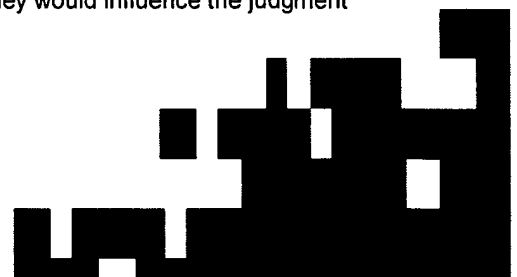
Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Company uses for income tax purposes 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.

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.

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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 the Levi, Ray & Shoup, 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 the Levi, Ray & Shoup, 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.

RSM US LLP

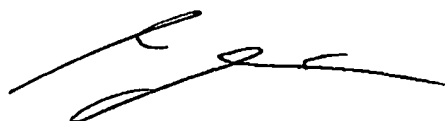
Peoria, Illinois
October 28, 2024

Levi, Ray & Shoup, Inc. and Subsidiaries

Consolidated Balance Sheets—Income Tax Basis
July 31, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,701,983	\$ 39,158,325
Marketable securities	4,737,452	10,901,439
Accounts receivable	46,997,369	48,821,197
Prepaid expenses and other assets	12,078,126	10,607,435
Total current assets	107,514,930	109,488,396
Property and equipment, net	19,757,863	19,391,934
Marketable securities	95,485,516	86,163,619
Federal income tax deposit	13,160,933	12,456,093
Amortizable research and development costs, net	12,180,562	7,675,378
Unamortizable goodwill	10,886,492	10,886,492
Amortizable goodwill, net	12,263,218	13,734,203
Total assets	\$ 271,249,514	\$ 259,796,115
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,435,772	\$ 6,417,782
Accrued income taxes	2,339,905	837,139
Accrued expenses and other current liabilities	13,626,429	14,018,551
Deferred revenue	88,296,982	82,411,913
Total current liabilities	111,699,088	103,685,385
Total liabilities	111,699,088	103,685,385
Commitments and contingencies (Notes 5, 9, 11 and 12)		
Stockholders' equity:		
Common stock:		
Voting, no par value; 100 shares authorized, 50 shares issued and outstanding	25	25
Nonvoting, no par value; 1900 shares authorized, 950 shares issued and outstanding	475	475
Additional paid-in capital	978,295	978,295
Undistributed Subchapter S earnings	158,571,631	155,131,935
Total stockholders' equity	159,550,426	156,110,730
Total liabilities and stockholders' equity	\$ 271,249,514	\$ 259,796,115

See notes to consolidated financial statements.



Levi, Ray & Shoup, Inc. and Subsidiaries

Consolidated Statements of Income—Income Tax Basis
Years Ended July 31, 2024 and 2023

	2024	2023
Revenue:		
Software sales and maintenance	\$ 181,225,638	\$ 165,167,617
Third-party resales	62,961,679	41,849,769
IT services	70,749,682	80,330,595
Other operating revenue	8,886,768	8,209,063
Total revenue	323,823,767	295,557,044
Costs and expenses:		
Compensation and related expenses	104,897,153	103,181,875
Cost of third-party resales	48,518,088	31,346,622
Depreciation and amortization	7,346,858	4,743,626
Other operating expenses	71,513,784	72,160,775
Total costs and expenses	232,275,883	211,432,898
Income before other income and income taxes	91,547,884	84,124,146
Other income, net	3,584,737	4,984,031
Income before income taxes	95,132,621	89,108,177
Provision for income taxes	9,692,925	6,367,916
Net income	\$ 85,439,696	\$ 82,740,261

See notes to consolidated financial statements.

Levi, Ray & Shoup, Inc. and Subsidiaries

**Consolidated Statements of Stockholders' Equity—Income Tax Basis
Years Ended July 31, 2024 and 2023**

	Common Stock				Additional Paid-In Capital	Undistributed Subchapter S Earnings	Total
	Voting		Non-voting				
	Shares	Amount	Shares	Amount			
Balance, July 31, 2022	50	\$ 25	950	\$ 475	\$ 978,295	\$ 135,391,674	\$ 136,370,469
Net income	-	-	-	-	-	82,740,261	82,740,261
Cash dividends	-	-	-	-	-	(63,000,000)	(63,000,000)
Balance, July 31, 2023	50	25	950	475	978,295	155,131,935	156,110,730
Net income	-	-	-	-	-	85,439,696	85,439,696
Cash dividends	-	-	-	-	-	(82,000,000)	(82,000,000)
Balance, July 31, 2024	50	\$ 25	950	\$ 475	\$ 978,295	\$ 158,571,631	\$ 159,550,426

See notes to consolidated financial statements.

Levi, Ray & Shoup, Inc. and Subsidiaries

Consolidated Statements of Cash Flows—Income Tax Basis
Years Ended July 31, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Net Income	\$ 85,439,696	\$ 82,740,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,346,858	4,743,626
Amortization of premiums on investments in marketable securities	803,809	470,684
(Gain) loss on sale of marketable securities	(98,099)	1,411
Gain on disposal of property and equipment, net	(29,944)	(60,108)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	1,823,828	4,940,590
Prepaid expenses and other current assets	(1,470,691)	785,785
Federal income tax deposit	(704,840)	(2,247,770)
Increase (decrease) in liabilities:		
Accounts payable	1,017,990	845,631
Accrued expenses and other current liabilities	1,110,644	(2,137,997)
Deferred revenue	5,885,069	5,705,174
Net cash provided by operating activities	101,124,320	95,787,287
Cash flows from investing activities:		
Purchase of property and equipment	(4,173,105)	(3,595,296)
Proceeds from sale of property and equipment	47,250	194,776
Disbursements for research and development costs	(6,591,187)	(8,425,336)
Fulcrum acquisition	-	(1,627,611)
Proceeds from maturities of marketable securities	32,026,214	24,642,025
Purchases of marketable securities	(35,889,834)	(30,561,780)
Net cash used in investing activities	(14,580,662)	(19,373,222)
Cash flows from financing activities:		
Dividends paid	(82,000,000)	(63,000,000)
Net cash used in financing activities	(82,000,000)	(63,000,000)
Increase in cash and cash equivalents	4,543,658	13,414,065
Cash and cash equivalents:		
Beginning of year	39,158,325	25,744,260
End of year	\$ 43,701,983	\$ 39,158,325
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	\$ 8,714	\$ 7,576
Income taxes	\$ 8,190,159	\$ 7,897,582

See notes to consolidated financial statements.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 1. Summary of Significant Accounting Policies

Business: Levi, Ray & Shoup, Inc. (LRS) develops, sells, and maintains proprietary output management software in mainframe and open system markets that are sold in approximately 120 countries around the world. In addition, LRS provides information technology solutions, consulting and mainframe computer processing services, and resells IBM computer hardware and software solutions.

LRS operates a marina business in Fort Myers, Florida, through its wholly-owned subsidiary, Diversified Yacht Services, Inc. (DYS) and a commercial and residential security business in Springfield, Illinois through its wholly-owned subsidiary Central Illinois Security, Inc. (CIS). The Company filed Q-Sub elections on both of these wholly-owned subsidiaries, DYS and CIS. LRS also operates a consulting services business through its wholly-owned subsidiary, Fulcrum Consulting, LLC. (Fulcrum), a single-member LLC. The activity from all of the wholly-owned subsidiaries is included in the Company's Federal income tax filing.

LRS, Fulcrum, DYS and CIS are collectively referred to as the Company.

Basis of accounting: The books of the Company are maintained on the accrual basis of accounting, consistent with current federal income tax laws and regulations. The tax basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) with respect to: (a) depreciable assets are depreciated over periods specified in the Internal Revenue Code (IRC) rather than over their estimated useful lives; (b) bad debts are accounted for under the direct write-off method whereas GAAP requires a reserve for doubtful accounts; (c) accounting for acquisitions which GAAP considers other intangibles not considered for tax; (d) impairment is not considered when estimated undiscounted cash flows are less than the carrying amount of the assets; (e) tax basis revenue deferrals are limited to one accounting period and any revenue remaining at the end of the second period is fully recognized as revenue whereas GAAP requires deferred amounts to be recognized over the entire amortization period; (f) certain presentations and disclosures required by GAAP which are not included herein; (g) certain research and development costs are required to be capitalized when incurred and amortized over periods specified in the IRC; (h) lease payments are expensed as incurred, whereas GAAP requires the Company to capitalize and amortize a right of use asset and record a lease liability for lease contracts; (i) the Company does not consider the variable interest consolidation model required by GAAP; (j) pass-through entity taxes paid on behalf of the shareholder are included as expenses when paid. In addition, the Company includes items of nontaxable revenue and nondeductible expenses in the accompanying consolidated statements of income—income tax basis. The accompanying consolidated financial statements are not intended to present financial position and results of operations in conformity with GAAP.

Principles of consolidation: The consolidated financial statements include the accounts of LRS and its wholly-owned subsidiaries, Fulcrum, DYS and CIS. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Classification: Current assets are cash and those assets that are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is reasonably expected to require the use of current assets or the creation of other current liabilities.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of the consolidated financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and their reported amounts of revenue and expenses during the reporting periods. Actual results could differ from such estimates. Because many types of transactions are susceptible to varying interpretations under federal (and state) income tax laws and regulations, the amounts reported in the accompanying consolidated financial statements may be subject to change at a later date upon final determination by the taxing authorities.

Revenue recognition: The Company enters into contractual arrangements with the end-users of its products to sell software licenses, software maintenance, consulting and processing services and hardware, either separately or combined into multiple-element arrangements. For each arrangement, revenues are recognized when all events fixing the right to receive revenue have occurred and the amount can be determined with reasonable accuracy. The Company's software products are licensed to customers under both perpetual and time-based license arrangements. The Company also sells customized software under the product name Pension Gold.

Perpetual license revenue: Revenue from licenses purchased under a perpetual license agreement is recorded as revenue upon receipt of a signed perpetual license arrangement, delivery of the software license to the end-user customer and determination that the fees are fixed or determinable.

Term license revenue: The Company also licenses its software under multiyear, time-based license agreements and on a month-to-month basis under various operating lease-type rental plans. Revenue under time-based license arrangements is recognized ratably over the term of the arrangement except any license revenue deferred in one period is fully recognized in the following period. This method of deferral is consistent with IRC 451(c). The Company has a history of successfully collecting substantially all amounts due under the original terms of multiyear, time-based license arrangements without making concessions on payments. Unbilled and unearned future amounts due under multiyear noncancellable, time-based license arrangements totaled \$162,080,923 and \$178,962,833 at July 31, 2024 and 2023, respectively. Revenue related to unbilled future amounts as of July 31, 2024, will be recognized during the periods in which earned and are due in future years as follows:

	Amount
Years ending July 31:	
2025	\$ 61,964,061
2026	50,725,958
2027	27,728,254
2028	13,747,330
2029	7,052,585
Thereafter	862,735
	<u>\$ 162,080,923</u>

Software maintenance revenue: Revenue from annual maintenance contracts for which customers pay a fee up front in order to receive software maintenance is recognized on a straight-line basis over the periods in which the support is provided except any maintenance revenue deferred in one period is fully recognized in the following period, IRC 451(c).

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 1. Summary of Significant Accounting Policies (Continued)

IT services revenue: Consulting and processing services are generally sold on a time and material basis, and the related revenue is recognized as the specific services are performed. Consulting and services revenue includes general consulting, processing services, training and other related services.

Hardware revenue: In some cases, the Company resells third-party hardware to its customers. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, and the fee is fixed or determinable. The Company considers delivery to occur when the product is shipped, and title and risk of loss have passed to the customer.

Other revenue: The Company also provides other miscellaneous services as part of its DYS and CIS operations which are recognized as other operating revenue as services are performed and invoiced.

Deferred revenue: Deferred revenue represents amounts received or receivable from customers under certain license, maintenance and service agreements for which the revenue earning process has not been completed. Consistent with IRC 451(c), advance payments are recognized as revenue to the extent earned in the year of receipt. Any remaining deferral is taken into income in the next succeeding year.

Charitable contributions: Charitable contributions are recognized as an expense when committed to be paid by the Company and are included in other operating expenses in the consolidated statements of income—income tax basis. Charitable contributions during each of the years ended July 31, 2024 and 2023, were approximately \$1,003,000.

Cash equivalents: Cash equivalents consist of money market funds, a portion of which is on deposit with related parties (see Note 10).

Concentration of credit risk: The Company maintains its cash, cash equivalents, and certain investments in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and management believes they are not exposed to any significant credit risk on cash and cash equivalents.

Related parties: Related party activity is based on the definition found in GAAP.

Marketable securities: Equity securities and certificates of deposit are carried at cost, while US government bonds and municipal revenue bonds are carried at amortized cost. The cost of securities sold is based on cost as determined under the specific identification method.

Trade receivables: Trade receivables are carried at original invoice. The Company follows the direct write-off method for recording uncollectible accounts receivable. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Trade accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest may be charged on accounts that are outstanding for more than 45 days and is recognized when charged.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 1. Summary of Significant Accounting Policies (Continued)

Foreign currency translation: The monetary assets and liabilities of the foreign branches, whose functional currency is the U.S. dollar, are translated at year-end exchange rates and nonmonetary items are translated at historical rates. Income and expense accounts are translated each month at the rate in effect at the beginning of the subsequent month, except for nonmonetary assets and liabilities, which are translated at historical rates. The effects of changes in exchange rates are included in income during the period of change. Foreign currency gains/(losses) included in other income were \$(711,497) and \$1,326,192 for the years ended July 31, 2024 and 2023, respectively, and arose primarily from fluctuations in the value of the Australian dollar, Euro, British pound sterling, and Swedish Krona against the U.S. dollar.

Property and equipment: Property and equipment is stated at cost. Depreciable assets are depreciated over periods specified in the Internal Revenue Code (IRC) as follows:

	<u>Years</u>
Buildings	39
Computer equipment and software	3-5
Other equipment, furniture, and fixtures	5-10
Aircraft	5

Federal income tax deposit: The Company is required to make a Section 444 tax deposit to the IRS in order to retain a fiscal year other than a calendar year. The deposit approximates the income tax that the stockholders would have paid on the short-period income had the Company switched to a calendar year. The Company's deposit at July 31, 2024 and 2023 is \$13,160,933 and \$12,456,093, respectively.

Unamortizable goodwill: The Company records unamortizable goodwill for stock acquisitions as the amount paid for the target company stock after deducting the historic tax basis (carrying value) of its assets and liabilities. The goodwill from the stock acquisitions is not amortized due to tax methods being carried over from the acquired company.

Amortizable goodwill: The Company records as goodwill the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination. The Company is amortizing goodwill using the straight-line method over the tax life of 15 years.

Amortizable research and development costs: In accordance with IRC 174 effective for tax years beginning after December 31, 2021, the Company is required to capitalize its research and development costs. Costs are amortized over five years if incurred in the United States of America (US) and 15 years if incurred outside of the US using a mid-year convention. Research and development costs incurred for the year ended July 31, 2024 and 2023 were \$6,591,187 and \$8,425,336, respectively, with related amortization expense of \$2,086,003 and \$749,958.

Leases: The Company records leases consistent with income tax regulations. The Company's leases are considered tax leases, with the lessor maintaining ownership of the asset and the Company recording rent expense based on rental payments made.

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

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 2. Marketable Securities—At Cost or Amortized Cost

Securities with maturity dates within one year are classified as short-term marketable securities. Securities with maturity dates greater than one year are classified as long-term marketable securities. Equity securities are classified as long term based on management's intentions to hold the security for a period greater than one year. At July 31, 2024, the maturity dates of long-term marketable securities, based on current contractual maturities, extend to November 2034. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	2024	2023
Short-term marketable securities:		
Certificates of deposit	\$ -	\$ 684,000
US Government bonds	-	6,179,142
Municipal revenue bonds	4,737,452	4,038,297
Short-term marketable securities	<u>\$ 4,737,452</u>	<u>\$ 10,901,439</u>
Long-term marketable securities:		
Corporate debt securities	\$ 8,024,515	\$ -
Equity securities	51,107,919	43,747,315
Municipal revenue bonds	36,353,082	42,416,304
Long-term marketable securities	<u>\$ 95,485,516</u>	<u>\$ 86,163,619</u>

Note 3. Property and Equipment

Property and equipment at July 31, 2024 and 2023, consists of the following:

	2024	2023
Land	\$ 5,560,324	\$ 5,560,324
Buildings	24,013,666	20,428,696
Computer equipment and software	4,497,897	4,504,649
Other equipment, furniture, and fixtures	13,847,257	14,388,582
Aircraft	25,491,828	25,200,597
	<u>73,410,972</u>	<u>70,082,848</u>
Less accumulated depreciation	53,653,109	50,690,914
	<u>\$ 19,757,863</u>	<u>\$ 19,391,934</u>

Depreciation expense was \$3,789,870 and \$2,627,860 for the years ended July 31, 2024 and 2023, respectively.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 4. Goodwill

The Fulcrum acquisition agreement provides for earnout payments over a two-year period beginning July 1, 2022 and ending on June 30, 2024. Any amounts paid from the earnout are be assigned to goodwill in the period paid. For the year ended July 31, 2023, the amount of the earnout paid was \$1,627,611, which was recorded as an addition to goodwill. There were no earnout payments made for the year ended July 31, 2024. The changes in the net carrying amount of goodwill for the years ended July 31, 2024 and 2023, were as follows:

	2024	2023
Balance, beginning	\$ 13,734,203	\$ 13,472,400
Additions		1,627,611
Amortization	(1,470,985)	(1,365,808)
Balance, ending	<u>\$ 12,263,218</u>	<u>\$ 13,734,203</u>

Estimated aggregate annual amortization expense on goodwill as of July 31, 2024, in future years, is as follows:

Years ending July 31:	
2025	\$ 1,455,712
2026	1,455,712
2027	1,455,712
2028	1,441,939
2029	1,125,331
Thereafter	5,328,812
	<u>\$ 12,263,218</u>

Note 5. Lease Commitments and Total Rent Expense

On November 19, 2018, upon completion of a new office building (Springfield Campus), the Company entered into a lease with a related party for an initial term of approximately 10 years. Annual rental payments due under the new lease total \$2,956,892.

In addition to the lease of the Springfield Campus, the Company has entered into leases of facilities which range from \$7,800 to \$215,000 per year and which generally have expiration dates between 2025 to 2030.

Rent expense incurred under facilities leases for the years ended July 31, 2024 and 2023, was \$5,478,693 and \$4,892,301, respectively.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 5. Lease Commitments and Total Rent Expense (Continued)

The total approximate rental commitments as of July 31, 2024, are due in future years as follows:

	Amount
Years ending July 31:	
2025	\$ 4,076,154
2026	3,976,746
2027	3,727,420
2028	3,509,011
2029	251,796
Thereafter	651,193
	<u>\$ 16,192,320</u>

Note 6. International Operations

The Company operates eight branches with offices in the United Kingdom, Germany, Spain, Italy, France, Sweden, Australia, and Singapore. The U.S. dollar is used as the functional currency for all international operations. The following is a summary of certain significant financial information of the Company's international operations included in the accompanying consolidated financial statements:

	2024	2023
Assets	\$ 33,241,615	\$ 26,739,725
Liabilities and deferred revenue	30,612,553	28,431,242
Revenue	59,374,142	52,996,694
Foreign income tax expense	4,587,433	3,680,759
Net income	14,668,161	14,301,286

Note 7. Income Taxes

Since July 31, 1987, the Company has operated under the provisions of Subchapter S of the Internal Revenue Code. As such, the Company's net income is recognized by the stockholders of the Company for federal income tax purposes as if the Company were a partnership. Accordingly, the Company is not liable for any federal income tax. The Company files its income tax returns using the accrual basis method of accounting.

The Company also files various state and local income tax returns. IRS notice 2020-75 allows the Company a deduction for shareholder level taxes. For the years ending July 31, 2024 and 2023, the Company elected to pay pass-through entity tax, when available. The pass-through entity tax was included in the accompanying consolidated statements of income—income tax basis when paid. State and local income taxes were approximately \$4,931,000 and \$2,647,000 for the years ended July 31, 2024 and 2023, respectively.

The Company's eight foreign branches file income tax returns in their respective countries. Foreign income tax expense was approximately \$4,762,000 and \$3,721,000 for the years ended July 31, 2024 and 2023, respectively.

Net operating losses (NOLs) in foreign branches totaled approximately \$3,800,000 and \$5,800,000 at July 31, 2024 and 2023, respectively. The NOLs can be carried forward indefinitely.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 7. Income Taxes (Continued)

With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years ended before 2021.

Note 8. Retirement Plan

Effective January 1, 2005, the Company adopted a 401(k) matching contribution plan covering substantially all domestic salaried employees of the Company and eligible hourly employees of its subsidiaries. The Company matches 100% of employee contributions up to a maximum of 5% of eligible employee compensation. Employer matching contributions to the plan totaled \$2,677,460 and \$2,664,273 for the years ended July 31, 2024 and 2023, respectively.

Note 9. Self-Insurance

The Company is self-insured for medical claims up to predetermined amounts. The Company has stop-loss insurance for individual claims in excess of \$200,000 for the policy years ended December 31, 2024 and 2023. The expenses under the Company's self-insured medical program for the years ended July 31, 2024 and 2023, were \$7,697,200 and \$6,787,262, respectively.

Note 10. Related-Party Transactions

The Company enters into certain transactions with two financial institutions in which the sole controlling shareholder of the Company owns an equity interest. Cash balances on deposit were \$22,363,419 and \$23,245,142 as of July 31, 2024 and 2023, respectively. Interest income derived from cash balances on deposit with both financial institutions totaled \$674,400 and \$238,181 for the years ended July 31, 2024 and 2023, respectively. Revenue for services provided to the financial institutions totaled \$1,227,358 and \$665,759 for the years ended July 31, 2024 and 2023, respectively. Bank service fees expense totaled \$22,275 and \$25,046 for the years ended July 31, 2024 and 2023, respectively.

The Company paid software royalties to a related party totaling \$7,353,087 and \$6,570,165 for the years ended July 31, 2024 and 2023, respectively. Additionally, the Company has also entered into a lease with a related party (see Note 5).

Note 11. Commitments and Contingencies

Under the terms of substantially all of the Company's license agreements, the Company has agreed to indemnify customers from all damages awarded against them and all reasonable expenses incurred by them as the result of any claim of trade secret, patent, or copyright infringement asserted against them by virtue of their use of the Company's software products. In the event of an infringement claim, in the vast majority of the license agreements, the Company retains the right to (a) procure for the customer the right to continue to use the software products or (b) replace or modify the software products to make their use non-infringing.

In the majority of the license agreements, if neither option is readily available, the Company may terminate the license agreement and refund a pro rata portion of the license fees paid. Such indemnification provisions are accounted for as contingent liabilities. The likelihood that the Company would be required to make refunds to customers under any such provisions is considered remote. The amount of the indemnification is limited to the amount paid by the customer in substantially all of the license agreements, while in some arrangements the Company's liability could extend up to unlimited amounts.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 11. Commitments and Contingencies (Continued)

The Company's standard license agreements include a product warranty provision for all products. Such warranties are accounted for as contingent liabilities. The likelihood that the Company would be required to make refunds to customers under such provisions is considered remote. The amount of refund is typically limited to the actual license fees paid by the customer; however, in some arrangements, the Company's liability could extend up to unlimited amounts.

In the ordinary course of its business activities, the Company experiences certain disputed matters which give rise to claims that may result in litigation. Management vigorously pursues appropriate resolutions to such claims, but at any point in time, some claims, which could result in lawsuits by and against the Company, remain outstanding. In the opinion of management, no outstanding claims have the potential to result in judgments which, in the aggregate, would have a material adverse effect on the Company's consolidated financial statements.

Note 12. Subsequent Events

All of the effects of subsequent events that provide additional evidence about conditions that existed at the consolidated balance sheet date, including the estimates inherent in the process of preparing the consolidated financial statements, are recognized in the consolidated financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated balance sheet date but arose after, but before the consolidated financial statements are available to be issued. In some cases, non-recognized subsequent events are disclosed to keep the consolidated financial statements from being misleading.

The Company has evaluated events occurring subsequent through July 31, 2024 to their potential impact to the consolidated financial statements through October 28, 2024, which is the date the consolidated financial statements were available to be issued.