

NEWGEN SOFTWARE, INC.
AUDITED FINANCIAL STATEMENTS
March 31, 2019

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Balance sheet	3
Statement of income	4
Statement of retained earnings	5
Statement of cash flows	6
Notes to financial statements	7-14
SUPPLEMENTARY INFORMATION	
Income statement detail	
Operating expenses	15



Independent Auditors' Report

To the Board of Directors
Newgen Software, Inc.
McLean, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Newgen Software, Inc. (a Delaware corporation), which comprise the balance sheet as of March 31, 2019, and the related statements of income, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newgen Software, Inc., as of March 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The income statement detail on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ryan & Wetmore, PC

Vienna, Virginia
May 13, 2019

NEWGEN SOFTWARE, INC.

BALANCE SHEET As of March 31, 2019

ASSETS	<u>AMOUNT IN \$</u>
Current Assets	
Cash and cash equivalents	1802562.21
Accounts receivable	6602598.56
Prepaid expense	85782.36
	<hr/>
Total current assets	8490943.13
	<hr/>
Property and Equipment, at cost	
Furniture and fixtures	96522.10
Computer equipment	70194.85
	<hr/>
	166716.95
Less accumulated depreciation/amortisation	90739.21
	<hr/>
	75977.74
	<hr/>
Other Assets	
Deposits	30680.04
	<hr/>
	8597600.91
	<hr/> <hr/>
 LIABILITIES AND STOCKHOLDER'S EQUITY	
Current Liabilities	
Accounts payable - related party	3805062.13
Accrued expenses	339047.29
Retirement plan payable	12877.38
Provision for annual expenses-incentive	103152.73
Income taxes payable	73889.62
Deferred revenue	2252022.32
	<hr/>
Total current liabilities	6586051.47
	<hr/>
Long-Term Liabilities	
Deferred rent	52195.69
Deferred tax liability	15924.30
	<hr/>
Total liabilities	6654171.46
	<hr/>
Stockholder's Equity	
Common stock, \$200 par value; 10000 shares authorised, 6000 issued and outstanding	1200000.00
Accumulated earnings	743429.45
	<hr/>
	1943429.45
	<hr/>
	8597600.91
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The Notes to Financial Statements are an integral part of these statements.

NEWGEN SOFTWARE, INC.

STATEMENT OF INCOME
For the Year Ended March 31, 2019

	<u>AMOUNT IN \$</u>
Earned revenue	23601715.35
Operating expenses	<u>22745403.16</u>
Operating income	856312.19
Other income (expenses)	
Other income	7507.00
Interest expense	-2124.67
Loss on foreign currency transactions	<u>-17029.40</u>
Total other income (expenses)	<u>-11647.07</u>
Income before provision for income taxes	844665.12
Provision for income taxes	<u>218389.54</u>
Net income	<u><u>626275.58</u></u>

The Notes to Financial Statements are an integral part of these statements.

NEWGEN SOFTWARE, INC.
STATEMENT OF RETAINED EARNINGS
For the Year Ended March 31, 2019

	<u>AMOUNT IN \$</u>
Balance, beginning	117153.87
Net income	<u>626275.58</u>
Balance, ending	<u><u>743429.45</u></u>

The Notes to Financial Statements are an integral part of these statements.

NEWGEN SOFTWARE, INC.

STATEMENT OF CASH FLOWS For the Year Ended March 31, 2019

	<u>AMOUNT IN \$</u>
Cash flows from operating activities:	
Net income	626275.58
Adjustments to reconcile net income to net cash provided by operations:	
Depreciation and amortisation	21740.98
Bad debt	178889.75
Deferred rent	-6348.26
Deferred tax benefit	-1417.00
(Increase) decrease in:	
Accounts receivable	-628192.95
Employee advances	7000.90
Prepaid expense	-26020.73
Other receivables	236.00
Deposits	673.36
(Decrease) increase in:	
Accounts payable - related party	393261.87
Accrued expenses	165151.35
Retirement plan payable	12877.38
Provision for annual expenses-incentive	33455.44
Income taxes payable	71084.82
Deferred revenue	510467.97
Net cash provided by operating activities	<u>1359136.46</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>-15118.13</u>
Net cash used in investing activities	<u>-15118.13</u>
Net increase in cash and cash equivalents	1344018.33
Cash and cash equivalents at beginning of year	<u>458543.88</u>
Cash and cash equivalents at end of year	<u><u>1802562.21</u></u>

The Notes to Financial Statements are an integral part of these statements.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

Note 1 Summary of significant accounting policies

The accounting policies relative to the carrying value of accounts receivable and property and equipment are indicated in the captions on the balance sheet. Other significant accounting policies are as follows:

Organization

Newgen Software, Inc. (NSI) (the Company) is a software development and technician placement company with proven expertise in software development, consulting, document management and workflow solutions, outsourcing and computer aided design-related services. Newgen Software, Inc. is a wholly owned subsidiary of Newgen Software Technologies, Limited, (NSTL) a corporation headquartered in New Delhi, India.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period the related liability is incurred. The Company recognizes revenue from the marketing and sale of computer software that is prepared by NSTL.

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.

Financial instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable and accounts payable. The recorded values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values based on their short-term nature.

Accounts receivable

The Company provides credit in the normal course of business. Interest expense is not charged on these contracts. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that any additional realization losses on balances outstanding at year-end will be immaterial.

Sales taxes

The Company's policy is to present taxes collected from customers and remitted to governmental authorities on a net basis. The Company records the amounts collected as a current liability and relieves such liability upon remittance to the taxing authority without impacting revenues or expenses.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

Note 1 Summary of significant accounting policies (Continued)

Revenue recognition and deferred revenue

Revenues from sales are recognized when products are delivered or services rendered. Delivery is considered to have occurred when the customer has taken title to the product and the risks and rewards of ownership have been substantively transferred. If the sales contracts contain a customer acceptance provision, then sales are recognized after the customer acceptance occurs or the acceptance provisions lapse.

Revenue from arrangements for services, such as maintenance, consulting and technical support, are recognized either as the service is performed or ratably over the defined contractual period for service maintenance contracts and shown as deferred revenue on the balance sheet.

Multiple deliverable arrangements

Certain contracts may contain multiple elements for revenue recognition purposes. The Company considers each deliverable that provide value to the customer on a standalone basis a separable element. Separable elements in these arrangements may include the hardware, software, installation services, training and support. The Company initially allocates consideration to each separable element using the relative selling price method. Selling prices are determined by the Company based on either vendor-specific objective evidence ("VSOE") (the actual selling price of similar products and services sold on a standalone basis) or, in the absence of VSOE, the Company's best estimate of the selling price.

Income taxes

The Company has adopted the provisions of FASB *Accounting Standards Codification* 740-10-25-13 "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their retrospective tax basis. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred taxes are classified as non-current at net.

Deferred rent

The Company has operating lease agreements for office space which contain provisions for rent "vacations" and future rent increases. In accordance with generally accepted accounting principles, the Company records monthly rent expense equal to the total payments due over the lease term, divided by the total number of months of the lease term. The difference between rent expenses recorded and the amount paid is credited or charged to "deferred rent" which is reflected as a separate line item in the accompanying balance sheet.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

Note 1 Summary of significant accounting policies (Continued)

Depreciation and amortisation

Depreciation and amortisation expense are calculated by using accelerated and straight-line methods based on their estimated useful life of the assets.

Furniture and fixtures	7 years
Computer equipment	3-7 years

Depreciation and amortisation expense for the year ended March 31, 2019 was \$21740.98.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these statements.

Warranties

The majority of the Company's software contracts include warranties on software for three months from the date of delivery. Based on historical experience with the type of contracts and known risks relative to the contracts, the Company does not anticipate any significant future warranty costs and has therefore not accrued any estimated warranty expense against current operations at March 31, 2019.

Bad debt recognition

The Company has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Bad debt expense for the year ended March 31, 2019 totaled \$178889.75.

Advertising costs

The Company's policy is to expense advertising costs as the costs are incurred. The Company incurred total advertising costs of \$14612.50 during the year ended March 31, 2019.

Foreign currency transactions

The U.S. dollar is the "functional currency" of the Company's worldwide continuing operations. All foreign currency asset and liability amounts are remeasured into U.S. dollars at end-of-period exchange rates. Foreign currency income and expenses are remeasured at average exchange rates in effect during the year. Exchange gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in income in the period in which they occur.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

Note 1 Summary of significant accounting policies (Continued)

Subsequent events

In accordance with ASC 855, *Accounting for Subsequent Events*, the Company evaluated subsequent events through the date of the auditor's report, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 2 Concentration of credit risk

The Company maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits. At March 31, 2019, the Federal Deposit Insurance Corporation (FDIC) guaranteed non-interest bearing and interest-bearing accounts up to \$250000.00 per institution. At March 31, 2019, the Company had \$1574938.04 of uninsured cash balances.

Note 3 Accounts receivable

At March 31, 2019, accounts receivable over 90 days totaled \$1170251.33. Of the accounts receivable over 90 days as of March 31, 2019, \$185716.25 has subsequently been collected through the date of the auditor's report.

Note 4 Major customers

	Percent of revenue as of March 31, 2019
Becton, Dickinson and Company	10.11%
Comprehensive Health Management, Inc.	21.47%

There was \$850288.68 of outstanding receivables from these customers at March 31, 2019.

Note 5 Related parties, economic dependency and major supplier

The Company had an outstanding payment of \$3805062.13 due to its sole shareholder at March 31, 2019. The balance on this account at March 31, 2018, was \$3411800.26 due from the Company to the sole shareholder. The Company recorded \$15106371.87 in additional liabilities to the shareholder during the year ended March 31, 2019. The Company repaid the shareholder \$14713110.00 during the year ended March 31, 2019. The shareholder, which provides nearly all of the required skilled and highly technical manpower to the Company, is a foreign corporation headquartered in New Delhi, India. The total payable to the shareholder consists of technical support charges on onsite and offshore sales on arm's length price. The Newgen group provides both onshore as well as offshore IT services to US based as well as other clients. NSI primarily bears the responsibility for onsite projects while the offshore software development services are outsourced to NSTL. NSI retains a margin on its marketing activity in case of offshore development services. NSI also receives support from NSTL in its onsite business for which it compensates NSTL on a cost-plus basis.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

Note 5 Related parties, economic dependency and major supplier (Continued)

The Company had an outstanding receivable of \$818655.00 due from its sole shareholder at March 31, 2019. The Company has employees that engage in installation and implementation of software services. The sole shareholder subcontracts some portion of its services contract to the Company at a cost-plus mark-up for their delivery and implementation services. The Company invoiced a total of \$818655.00 to its sole shareholder during the year ended March 31, 2019.

During the year ended March 31, 2019, family members of the majority shareholder and director of NSTL were employed by the Company in the United States of America.

On January 29, 2018, Newgen Software Technologies Limited became a Publicly Listed Organisation on the National Stock Exchange of India Ltd. Newgen Software, Inc. remains a privately held company and will continue to report financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Management believes there is no effect on the accompanying financial statements of Newgen Software, Inc. for the year ended March 31, 2019.

The Company's sole shareholder, NSTL, offers an employee stock ownership plan (ESOP) which covers certain eligible employees of the Company. NSTL incurred total ESOP compensation costs of \$8511.36 attributable to employees of the Company during the year ended March 31, 2019. No ESOP compensation costs were recorded by the Company or included in the statement of income.

Note 6 Incentive compensation and commissions

The Company has established an incentive compensation program for its employees. The program provides a bonus to reward its skilled workforce for service to the Company. Bonuses are paid quarterly based on their performance during each quarter. The Company has accrued \$103152.73 of unpaid incentives and commissions as of March 31, 2019. The Company also pays sales commissions to certain employees. The total incentive compensation and commission expense during the year ended March 31, 2019, was \$361845.16 to employees and \$15914.28 to third parties. These amounts were included in sales commission.

Note 7 Cash flow statement disclosure

Cash paid during the year ended March 31, 2019 for:

Interest expense	\$ 2124.67
Income taxes	\$ 151913.00

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS March 31, 2019

Note 8 Income taxes and deferred tax liabilities

At March 31, 2019, the Company has estimated that the current benefit recognized from deferred income taxes is \$1417.00. The components of the income tax provision for the year ended March 31, 2019, are as follows:

Current:	Federal expense	\$ 157379.20
	State expense	62427.34
Deferred:	Federal expense (benefit)	\$ (1417.00)
	State expense	<u>- -</u>
	Income tax provision	<u>\$ 218389.54</u>

Significant components of the Company's deferred tax assets and liabilities are as follows:

At March 31, 2019, there were no deferred tax assets.

Deferred tax liabilities:

Difference between book and tax depreciation	\$ 15924.30
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Note 9 Operating leases

The Company's corporate operations are conducted from facilities in McLean, Virginia that are leased under a non-cancelable operating lease. In June 2015, the Company restructured the lease to acquire additional office space. Under the lease revision, which is set to expire on July 31, 2020, base rent was \$8589.42 per month for the period ended March 31, 2019, with annual rent increases built into the agreement.

In August 2017, the Company entered into a month to month operating lease agreement for office space acquired in San Francisco, California. The base rent for this lease is \$1700.00 per month.

In August 2015, the Company entered into a five-year non-cancelable operating lease agreement for office space acquired in McLean, Virginia. The amount of base rent for this lease, which is set to expire on July 31, 2020, was \$3947.34 per month for the period ended March 31, 2019, with annual rent increases of 3% per annum built into the agreement.

In August 2017, the Company entered into a five-year non-cancelable operating lease agreement for office space acquired in Tampa, Florida. The amount of base rent for this lease, which is set to expire in February 2023, was \$9647.60 per month for the period ended March 31, 2019, with annual rent increases of 3% per annum built into the agreement.

For the period ended March 31, 2019, total rent expense, including storage rental, was \$282218.61.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

Note 9 Operating leases (continued)

Future minimum lease payments under operating leases for the next five years are as follows:

Year ending March 31,	
2020	\$259994.36
2021	162493.84
2022	115240.92
2023	108670.18
2024	- -
2025 and beyond	<u>- -</u>
Total	<u>\$646399.30</u>

Note 10 Retirement Plan

The Company maintains a 401(k)-retirement plan to provide retirement benefits for all eligible employees. The plan is a defined contribution plan covering all employees who are age twenty-one or older, have completed 3 months of service and complete over 1,000 hours of service annually. Eligible employees may contribute from 1% to 90% of their annual eligible earnings, limited to a maximum annual amount as set periodically by the Internal Revenue Service. Eligible employees can choose to make either Regular 401(k) deferrals (pre-tax) or Roth 401 (k) deferrals (after-tax). The Company matches employee contributions dollar for dollar up to a maximum of 3% of the employee's eligible earnings plus an additional 50% match on salary deferrals between 3% and 5% of the employee's eligible earnings. All participants are immediately vested in their voluntary contributions and the Company's safe harbor matching contributions. The company recorded safe harbor matching contributions of \$53486.65 for the year ended March 31, 2019.

Note 11 Commitments and contingencies

In the ordinary course of conducting business, the Company becomes involved in various disputes resulting in claims or assessments made against the Company. On May 22, 2017, the Company received a notice of potential patent infringement. The Company is currently in negotiations with the assignee regarding this claim. As of the financial statement date, management is unable to reasonably estimate the potential liability from this claim and does not believe the claim will have a material effect on the Company's financial position or results of operations for the period ended March 31, 2019.

On January 2, 2019, the Company received a notice from an existing customer seeking damages for alleged breach of contract. The Company is currently in discussions with the customer regarding the validity of this claim. As of the financial statement date, management is unable to reasonably estimate the potential liability from this claim and does not believe the claim will have a material effect on the Company's financial position or results of operations for the period ended March 31, 2019.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

Note 12 Accounting for uncertainty in income taxes

The Company applies FASB ASC 740-10-50-15, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement 109 in accounting for uncertain tax positions. The Company believes it does not have uncertain tax positions. The Company has varying open tax years subject to examination between March 31, 2013 and March 31, 2019. Currently, the Company is not under examination for income tax purposes by any taxing jurisdiction. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. No interest expense related to uncertain tax positions was recognized during the year ended March 31, 2019.

Note 13 Recent accounting pronouncement

In August 2015, FASB issued a new standard that will replace existing revenue recognition standards and significantly expand the disclosure requirements for revenue arrangements. Nonpublic organizations should apply to the new revenue standard to annual reporting periods beginning after December 15, 2018. The new standard may be adopted retrospectively for all periods presented or adopted using a modified retrospective approach. Management is still in the process of determining which transition method to utilize in order to adopt the new standard and still assessing what effect the adoption of this standard may have on the timing of revenue recognition and the financial statements as a whole.

In February 2016, FASB issued accounting Standards Updated (ASU) for 2016-02, Leases, to increase transparency and comparability of accounting for lease transactions. The new standard requires lessees to recognize lease assets and lease liabilities on their balances sheet for all leases with a lease term greater than 12 months. Lessor accounting is largely unchanged. ASU 2016-02 is effective for years beginning after December 15, 2019, for private companies, with early adoption permitted. The Company is assessing what effect the adoption of this standard may have on the financial statements as a whole.

NEWGEN SOFTWARE, INC.

INCOME STATEMENT DETAIL For the Year Ended March 31, 2019

<u>Operating expenses</u>	<u>AMOUNT IN \$</u>
Offshore development & support costs	15106371.22
Payroll and related taxes	4017319.61
Travel and entertainment	649744.98
Medical insurance	604609.22
Professional fees	514191.92
Sales commission	377759.44
Exhibitions and seminars	314039.42
Rent	282218.61
Bad debt	178889.75
Dues and subscriptions	140278.15
Telephone	121101.75
Recruiting	98310.00
Other insurance	84138.52
Office supplies	74688.46
Licenses	63754.86
Retirement plan contribution	53486.65
Depreciation and amortisation	21740.98
Advertising	14612.50
Direct mail	11596.36
Bank service charges	11402.06
Parking	4471.74
Repairs and maintenance	345.58
Miscellaneous	331.38
	<hr/>
	22745403.16
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