

NEWGEN SOFTWARE, INC.
AUDITED FINANCIAL STATEMENTS
March 31, 2020

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	7-18
SUPPLEMENTARY INFORMATION	
Income statement detail	
Operating expenses	19



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, 2020, 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, 2020, 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 19 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 20, 2020

NEWGEN SOFTWARE, INC.

BALANCE SHEET As of March 31, 2020

ASSETS	<u>AMOUNT IN \$</u>
Current Assets	
Cash and cash equivalents	2535922.20
Accounts receivable	9004389.88
Prepaid expense	<u>75331.53</u>
Total current assets	<u>11615643.61</u>
Property and Equipment, at cost	
Furniture and fixtures	146981.40
Computer equipment	<u>81666.14</u>
	228647.54
Less accumulated depreciation/amortisation	<u>115561.26</u>
	<u>113086.28</u>
Other Assets	
Right of use asset	325372.76
Deposits	<u>32874.04</u>
Total other assets	<u>358246.80</u>
	<u>12086976.69</u>
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current Liabilities	
Current portion of lease liability	155048.97
Accounts payable - related party	3964072.23
Accrued expenses	368860.44
Retirement plan payable	12833.73
Provision for annual expenses-incentive	96623.54
Income taxes payable	40870.53
Deferred revenue	<u>4505984.08</u>
Total current liabilities	<u>9144293.52</u>
Long-Term Liabilities	
Lease liability, less current portion	220666.41
Deferred tax liability	<u>23067.30</u>
Total liabilities	<u>9388027.23</u>
Stockholder's Equity	
Common stock, \$200 par value; 10000 shares authorised, 6000 issued and outstanding	1200000.00
Accumulated earnings	<u>1498949.46</u>
	<u>2698949.46</u>
	<u>12086976.69</u>

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

NEWGEN SOFTWARE, INC.

STATEMENT OF INCOME For the Year Ended March 31, 2020

	<u>AMOUNT IN \$</u>
Earned revenue	23975254.56
Operating expenses	<u>22792388.12</u>
Operating income	1182866.44
Other income (expenses)	
Other income	2439.84
Interest expense	-1540.00
Loss on foreign currency transactions	-1241.93
Legal settlements	<u>-160128.00</u>
Total other income (expenses)	<u>-160470.09</u>
Income before provision for income taxes	1022396.35
Provision for income taxes	<u>250355.91</u>
Net income	<u><u>772040.44</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, 2020**

	<u>AMOUNT IN \$</u>
Balance, beginning - as previously reported	743429.45
Prior period adjustment (See Note 13)	<u>-16520.43</u>
Balance, beginning - adjusted	726909.02
Net income	<u>772040.44</u>
Balance, ending	<u><u>1498949.46</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, 2020

	<u>AMOUNT IN \$</u>
Cash flows from operating activities:	
Net income	772040.44
Adjustments to reconcile net income to net cash provided by operations:	
Depreciation and amortisation	24822.04
Bad debt	544838.82
Deferred tax expense	7143.00
(Increase) decrease in:	
Accounts receivable	-2946630.14
Prepaid expense	10450.83
Right of use asset	-394088.87
Deposits	-2194.00
(Decrease) increase in:	
Lease liability	375715.38
Accounts payable - related party	159010.10
Accrued expenses	29813.15
Retirement plan payable	-43.65
Provision for annual expenses-incentive	-6529.19
Income taxes payable	-33019.09
Deferred revenue	2253961.76
Net cash provided by operating activities	<u>795290.58</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>-61930.59</u>
Net cash used in investing activities	<u>-61930.59</u>
Net increase in cash and cash equivalents	733359.99
Cash and cash equivalents at beginning of year	<u>1802562.21</u>
Cash and cash equivalents at end of year	<u><u>2535922.20</u></u>

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

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

Note 1 Summary of significant accounting policies

The accounting policies relative to the carrying value of property and equipment is 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.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS March 31, 2020

Note 1 Summary of significant accounting policies (continued)

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.

Adoption of new account standards

During the year ended March 31, 2020, the Company has adopted FASB *Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers*, using the retrospective basis applied to those contracts which were not completed as of March 31, 2019. Results for the year ended March 31, 2020, are presented under ASC 606, with adjustments to beginning retained earnings for any contracts which were not completed as of March 31, 2019. There was no cumulative effect of applying the new guidance, net of tax, as of March 31, 2019. Therefore, no adjustment was made to beginning retained earnings.

Also, during the year ended March 31, 2020, the Company adopted ASU No. 2016-02 – *Leases (Topic 842)*. Topic 842 establishes the principles that lessees and lessors shall report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease by increasing transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet. As permitted by ASU 2016-02, the Company elected to apply the provisions retrospectively as of the date of adoption, April 1, 2019. The cumulative adjustment to beginning retained earnings is disclosed in Note 13.

Recognition of revenues

The Company recognizes revenue when, or as, they satisfy performance obligations under a contract. A performance obligation is the unit of account for revenue recognition and refers to a promise in a contract to transfer a distinct service or good to the customer. Performance obligations may be satisfied over time or at a point in time. The Company selects the appropriate measure of progress for revenue recognition based on the nature of the performance obligation, contract type and other pertinent contract terms.

Certain contracts may contain multiple performance obligations for revenue recognition purposes. The Company considers each performance obligation 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 performance obligation 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.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

Note 1 Summary of significant accounting policies (continued)

Recognition of revenues (continued)

Recognizing revenue on contracts involves significant estimates and judgements. Contract terms may include variable consideration, such as reimbursable costs, performance bonuses or other provisions that can either increase or decrease the transaction price. Variable amounts generally are determined upon the achievement of certain performance metrics, program milestones or cost targets and may be based upon customer discretion. When making estimates, the Company considers the customer, contract terms, the complexity of the work and related risks, the extent of customer discretion, historical experience and the potential of a significant reversal of revenue. The Company includes variable consideration in the transaction price only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

Contracts are sometimes modified to account for changes in contract specifications and requirements. Most of the Company's contract modifications are for goods or services that are not distinct from existing contracts and are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price is recognized as an adjustment to revenue on a cumulative catch-up basis. The Company accounts for contract modifications as a separate performance obligation when the modification results in the promise to deliver additional goods or services that are distinct.

The Company works with private and public entities as well as government agencies across the United States and around the world.

Sale of license

Revenue from sale of licenses for software products is recognized when the significant risks and rewards of ownership have been transferred to the buyer which generally coincides with delivery of licenses to the customers, recovery of the consideration is probable, the associated costs and possible return of software sold can be estimated reliably, there is no continuing effective control over, or managerial involvement with the licenses transferred and the amount of revenue can be measured reliably.

Rendering of services

Revenue from services rendered is recognized in proportion to the stage of completion of the transaction at the reporting date. Efforts or costs expended have been used to measure progress towards completion as there is a direct relationship between input and productivity.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

Note 1 Summary of significant accounting policies (continued)

Recognition of revenues (continued)

Software implementation services

The revenue from fixed price contracts for software implementation is recognized based on proportionate completion method based on hours expended, and foreseeable losses on the completion of contract, if any are recognized immediately. The Company is also involved in time and material contracts and recognizes revenue as the services are performed.

Annual technical services

Revenue from annual technical service and maintenance contracts is recognized ratably over the term of the underlying maintenance arrangement.

Sale of right to use software

Software-as-a-service, that is, a right to access software functionality in a cloud-based-infrastructure provided by the Company. Revenue from arrangements where the customer obtains a “right to access” is recognized over the access period. Revenue from client training, support and other services arising due to the sale of license is recognized as the performance obligations are satisfied. Revenue is recognized, net of returns, trade discounts and volume rebates. This inter alia involves discounting of the consideration due to the present value if payment extends beyond normal credit terms. Reimbursements of out-of-pocket expenses received from customers have been netted off with expense. Amounts received or billed in advance of services to be performed are recorded as deferred revenue. Unbilled revenue represents amounts recognized based on services performed in advance of billing in accordance with contract terms.

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.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS March 31, 2020

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, 2020 was \$24822.04.

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, 2020.

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, 2020 totaled \$544838.82.

Advertising costs

The Company's policy is to expense advertising costs as the costs are incurred. The Company incurred total advertising costs of \$11165.00 during the year ended March 31, 2020.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS March 31, 2020

Note 1 Summary of significant accounting policies (continued)

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.

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. Other than the items included in Note 14, 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, 2020, the Federal Deposit Insurance Corporation (FDIC) guaranteed non-interest bearing and interest-bearing accounts up to \$250000.00 per institution. At March 31, 2020, the Company had \$2282341.51 of uninsured cash balances.

Note 3 Accounts receivable

At March 31, 2020, accounts receivable over 90 days totaled \$1670234.74. Of the accounts receivable over 90 days as of March 31, 2020, \$350486.60 has subsequently been collected through the date of the auditor’s report.

As of April 1, 2019, the total accounts receivable balance was \$6602598.56.

Note 4 Major customers

Percent of revenue as of
March 31, 2020

Comprehensive Health Management, Inc.	20.51%
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There was \$1385341.30 of outstanding receivables from this customer at March 31, 2020.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

Note 5 Related parties, economic dependency and major supplier

The Company had an outstanding payment of \$3964072.23 due to its sole shareholder at March 31, 2020. The balance on this account at March 31, 2019, was \$3805062.13 due from the Company to the sole shareholder. The Company recorded \$13790103.10 in additional liabilities to the shareholder during the year ended March 31, 2020. The Company repaid the shareholder \$13815000.00 during the year ended March 31, 2020. The shareholder, which provides products, required skilled and technical manpower to the Company, is a foreign corporation headquartered in New Delhi, India. 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 revenue on its marketing & distribution activities in case of offshore development services. The Company recorded \$183907.00 as back office support cost from the sole shareholder. This is based on arm's length price on cost plus mark-up basis.

The Company had an outstanding receivable of \$452464.40 due from its sole shareholder at March 31, 2020. 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 \$802464.40 to its sole shareholder during the year ended March 31, 2020.

During the year ended March 31, 2020, a family member of the majority shareholder and director of NSTL was 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, 2020.

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 \$4796.30 attributable to employees of the Company during the year ended March 31, 2020. No ESOP compensation costs were recorded by the Company or included in the statement of income.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS March 31, 2020

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 \$96623.54 of unpaid incentives and commissions as of March 31, 2020. The Company also pays sales commissions to certain employees. The total incentive compensation and commission expense during the year ended March 31, 2020, was \$210495.82 to employees and \$36460.10 to third parties. These amounts were included in sales commission.

Note 7 Cash flow statement disclosure

Cash paid during the year ended March 31, 2020 for:

Interest expense	\$ 1540.00
Income taxes	\$ 278440.00

Note 8 Income taxes and deferred tax liabilities

At March 31, 2020, the Company has estimated that the current expense recognized from deferred income taxes is \$7143.00. The components of the income tax provision for the year ended March 31, 2020, are as follows:

Current:	Federal expense	\$ 193686.41
	State expense	49526.50
Deferred:	Federal expense	\$ 7143.00
	State expense	<u>-.-</u>
	Income tax provision	<u>\$ 250355.91</u>

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

At March 31, 2020, there were no deferred tax assets.

Deferred tax liabilities:

Difference between book and tax depreciation	\$ 23067.30
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NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

Note 9 Leases

During the year ending March 31, 2020, the Company adopted the new ASU 2016-02, *Leases (Topic 842)* for leases. The new standard defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (the underlying asset) for a period of time in exchange for consideration.

Under the new standard, the Company has recognized lease assets and liabilities, with certain exceptions, on the balance sheet. Both financing leases and operating leases create an asset (Right of use or ROU asset) and a liability measured at the present value of the lease payments that are reflected in the accompanying balance sheet. Short-term leases with terms of one year or less, that do not include an option to purchase the underlying asset, are not included in the measurement of lease assets and liabilities.

The Company assessed whether any expired or existing contracts are or contain leases. The lease classification was also assessed to determine whether there were any expired or existing leases classified as operating leases. The Company does not have any existing leases that were classified as capital leases, and accordingly, does not have any leases that will now be classified as financing leases.

The Company made an accounting policy election, as a non-public business entity, to use a risk-free discount rate, commensurate with the term of the lease, to determine the present value of the lease payments for each lease agreement. In addition, the Company does not separate the non-lease components contained in "full service" leases for office space.

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, 2020, with annual rent increases built into the agreement.

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 \$4065.76 per month for the period ended March 31, 2020, 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 \$9184.53 per month for the period ended March 31, 2020, with annual rent increases of 3% per annum built into the agreement.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS March 31, 2020

Note 9 Leases (continued)

Lease expenses are recognized on a straight-line basis. Prior to the adoption of ASU 2016-02, accumulated differences between lease expense and cash payments were presented as deferred rent on the balance sheet. Lease expense related to the operating leases for the year ended March 31, 2020 was \$241551.68.

Future minimum cash-basis lease payments, exclusive of operating expense increases and real estate taxes, are as follows:

Year ending March 31,	
2021	\$162262.90
2022	115164.54
2023	111230.08
2024	--
2025	--
2026 and beyond	<u>--</u>
	\$388657.52
Amount representing interest at 2.50%	<u>-12942.14</u>
Lease liability	<u>\$375715.38</u>

The Company also has short-term leases with terms under one year that are not included in the measurement of lease assets and liabilities. These short-term leases are expensed in the period incurred. The total expense incurred on these short-term leases during the year ended March 31, 2020 was \$35970.00.

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 \$105815.95 for the year ended March 31, 2020.

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS March 31, 2020

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. During the year ended March 31, 2020, the Company reached settlement agreements with two of its customers for alleged breach of contract claims. The Company settled both claims in the total amount of 160128.00 and included in other expenses for the year ended March 31, 2020.

During the year ended March 31, 2020, 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, 2020.

During the year ended March 31, 2020, the Company received notices from existing customers seeking damages for alleged breach of contracts. The Company is currently in discussions with the customers regarding the validity of the claims. As of the financial statement date, management is unable to reasonably estimate the potential liability from these claims and does not believe these claims will have a material effect on the Company's financial position or results of operations for the year ended March 31, 2020.

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, 2014 and March 31, 2020. 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, 2020.

Note 13 Prior period adjustment

Retained earnings as of April 1, 2019, has been decreased by \$16520.43, net of income tax effect of \$0, to correct the recognition of leases based on the adoption of the new lease standard Topic 842. The following is a summary of the prior period adjustments:

To adjust right of use asset	\$554157.93
To adjust lease liability	-622874.05
To adjust deferred rent	52195.69
Income tax effect	<u>- -</u>
Total	<u>\$ -16520.43</u>

NEWGEN SOFTWARE, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

Note 14 Subsequent events

Since March 31, 2020, the outbreak of Coronavirus (COVID - 19) pandemic globally is causing significant disturbance and slowdown of economic activity. Governments and Central Banks have subsequently made monetary and fiscal interventions to stabilize economic conditions. Newgen Software, Inc. continues to evaluate the long-term impact of COVID - 19 on its business operations, as there remain uncertainties at this time. Newgen Software, Inc. has a resilient business model in place and is focusing on several measures for preservation of cash flows and cost optimization including availing of various government relief options. The Company has determined that these events are non-adjusting subsequent events. The Company will continue to assess the situation and will proactively respond to the situation and take further actions that are in the best interest of all stakeholders. It will continue to be well supported through this crisis period by parent company, Newgen Software Technologies Ltd.

NEWGEN SOFTWARE, INC.

INCOME STATEMENT DETAIL For the Year Ended March 31, 2020

<u>Operating expenses</u>	<u>AMOUNT IN \$</u>
Offshore development & support costs	13974011.02
Payroll and related taxes	4832718.43
Medical insurance	787554.75
Travel and entertainment	641818.83
Bad debt	544838.82
Professional fees	496442.20
Lease expenses	277521.68
Sales commission	246955.92
Exhibitions and seminars	241135.61
Telephone	139613.46
Dues and subscriptions	138281.59
Retirement plan contribution	105815.95
Other insurance	98288.10
Licenses	71063.23
Office supplies	68383.12
Payment processing fees	40595.70
Depreciation and amortisation	24822.04
Direct mail	16630.55
Bank service charges	16606.69
Recruiting	16066.57
Advertising	11165.00
Parking	1166.75
Penalties	892.11
	<hr/>
	22792388.12
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