

**RAMCO SYSTEMS CORPORATION**  
**(A Majority-Owned Subsidiary of Ramco Systems Limited)**

**Standalone Financial Statements for the Years  
ended March 31, 2014 and 2013  
and Independent Auditor's Report**



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### **Independent Auditors' Report**

**To the Board of Directors and Shareholders of Ramco Systems Corporation, USA**

We have audited the accompanying consolidated balance sheets of Ramco Systems Corporation (the "Company"), a majority owned subsidiary of Ramco Systems Limited, India as of March 31, 2014 and March 31, 2013, and the related statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended March, 31 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of Ramco Systems Corporation as of March 31 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended March, 31 2014 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 the Company effected a quasi-reorganization as of March 31, 2005 as defined under ARB No 43.

  
C N Gangadaran  
Partner  
CNGSN & Associates



**Date: May 15<sup>th</sup> 2014**

**Ramco Systems Corporation**  
**(A majority owned subsidiary of Ramco Systems Limited, India)**

**Balance Sheet**

	<u>Note</u>	<u>As at March 31 2014</u>	<u>As at March 31 2013</u>
<b><u>Assets</u></b>			
<b>Current Assets:</b>			
Cash and Cash equivalents		661,328	403,727
Accounts receivable, net of allowances	4	2,593,120	1,374,589
Due from officers and employees		6,016	33,682
Due from related parties	12	767,999	1,359,158
Other current assets	5	97,178	115,394
		4,125,641	3,286,550
Investment in Ramco Systems Canada Inc. (10,000 ordinary shares of CAN \$1 each)		9,955	9,955
Other assets		30,156	30,156
Fixed Asset- Net	6	49,012	86,075
<b>TOTAL ASSETS</b>		<b>4,214,764</b>	<b>3,412,736</b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities:</b>			
Accounts payable		435,743	397,836
Accrued expense		1,390,534	1,148,706
Deferred revenue	12	981,523	1,316,432
Dues to related parties		379,196	174,161
		3,186,996	3,037,135
<b>Stockholder's equity:</b>			
Common stock – no par value; shares authorized 200,000,000; shares issued and outstanding 197,564,550		2,871,325	2,871,325
Retained earnings after reorganization; elimination of accumulated deficit of \$16,790,130 effective March 31, 2005 pursuant to quasi-reorganization (See note:3)		(1,843,557)	(2,495,724)
		<b>1,027,768</b>	<b>375,601</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>		<b>4,214,764</b>	<b>3,412,736</b>
See accompanying notes to financial statement			

**Ramco Systems Corporation**  
**(A majority owned subsidiary of Ramco Systems Limited, India)**

**Statement of Operations**

**For the year ended March 31**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>			
License	2,248,947	56,000	756,776
Services and maintenance	8,601,461	6,865,610	6,022,852
Consulting Services	--	37,636	275,610
CRM	678,151	486,350	642,505
Others	378,247	240,258	441,188
	<b>11,906,806</b>	<b>7,685,854</b>	<b>8,138,931</b>
<b>Cost of revenues</b>			
License	899,579	22,400	302,722
Services and maintenance	47,15,413	4,771,628	4,433,955
Consulting Services	--	2,847	239,489
CRM	251,748	416,201	558,229
Others	390,397	254,893	472,521
	<b>6,257,137</b>	<b>5,467,969</b>	<b>6,006,906</b>
<b>Gross Margin</b>	<b>5,649,669</b>	<b>2,217,885</b>	<b>2,132,026</b>
<b>Operating expenses</b>			
Selling, general and administrative expenses	4,882,275	3,556,137	3,230,565
Depreciation	67,637	101,498	119,400
Bad debt expenses	40,194	8,738	57,147
	<b>4,990,106</b>	<b>3,666,373</b>	<b>3,407,113</b>
<b>Income from Operations</b>	<b>659,563</b>	<b>(1,448,488)</b>	<b>(1,275,087)</b>
Gain/(Loss) on investment in subsidiary	-	-	-
Interest income/ (expenses)	1,202	7,653	6,665
Other Income / (expenses)	-	-	-
<b>Income before income taxes</b>	<b>660,765</b>	<b>(1,440,835)</b>	<b>(1,268,422)</b>
Provision for Income taxes	8,598	(5,644)	(9,983)
	<b>652,167</b>	<b>(1,446,479)</b>	<b>(1,278,405)</b>
<b>Net Income</b>			
See accompanying notes to financial statement			

**Ramco Systems Corporation**  
**(A majority owned subsidiary of Ramco Systems Limited, India)**

**Statement of Stockholder's equity as on Mar 31 2014**

	Common Stock		Retained earnings/(deficit)	Total Stockholder's equity
	Shares	Amount \$	In USD	In USD
Balance as on March 31 2011	197,564,550	2,871,325	229,160	3,100,485
Net Income for the year 2011-12			(1,278,405)	(1,278,405)
Balance as on March 31 2012	197,564,550	2,871,325	(1,049,245)	1,822,080
Net Income for the year 2012-13			(1,446,479)	(1,446,479)
Balance as on March 31 2013	197,564,550	2,871,325	(2,495,724)	375,601
Balance as on March 31 2013	197,564,550	2,871,325	(2,495,724)	375,601
Net Income for the year 2013-14			652,167	652,167
Balance as on March 31 2013	197,564,550	2,871,325	(1,843,557)	1,027,768

**Ramco Systems Corporation**

(A majority owned subsidiary of Ramco Systems Limited, India)

**Statement of Cash Flows****For the year ended March 31**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Cash flow operating activities:</b>			
Net Income for the period	652,167	(1,446,479)	(1,278,405)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	67,637	101,498	119,400
Bad debt expenses	40,194	8,738	57,147
Net changes in working capital items:			
Accounts receivable	(1,258,725)	(120,279)	859,375
Due from officers and employees.	27,666	(22,961)	(1,509)
Dues from related parties	970,355	1,272,510	207,395
Other current assets	18,216	11,835	11,253
Other assets	-	(4,178)	(4,200)
Accounts payable	37,907	89,748	89,396
Accrued expenses	241,829	281,428	(32,271)
Deferred revenue	(334,909)	(90,772)	(50,229)
Dues to affiliates	(174,161)		
Net Cash provided by / (used in) Operating activities	<u>288,176</u>	<u>81,088</u>	<u>(22,648)</u>
<b>Cash flow from Investing activities:</b>			
Purchase of Fixed assets	(30,575)	(4,262)	(86,429)
Investment in Canadian subsidiary			
Net Cash provided by / (used in) Investing activities	<u>(30,575)</u>	<u>(4,262)</u>	<u>(86,429)</u>
<b>Cash flow from financing activities:</b>			
Net Cash provided by / (used in) financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents for the period	<u>257,601</u>	<u>76,826</u>	<u>(109,077)</u>
Cash and cash equivalents, beginning of year	403,727	326,901	435,978
Cash and cash equivalents, end of year	661,328	403,727	326,901

The accompanying notes are an integral part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### (1) Overview

Ramco Systems Corporation ("RSC" or "the Company") was incorporated in October 1992 under the laws of the State of California in the United States. The Company is a majority-owned (97.6% after recapitalization as mentioned in Note 3) subsidiary of Ramco Systems Limited ("RSL" or "Parent"), a company incorporated in India.

The Company markets personalized assembled solutions using the delivery platform Ramco VirtualWorks<sup>®</sup> developed by its parent and provides its related consulting services and maintenance to customers located in the America. The Company currently operates in single segment – Software solutions & Services

Ramco Systems Canada Inc., ("RSCI" or "Subsidiary") was incorporated on 30<sup>th</sup> September 2010 under the laws of the Province of Ontario in Canada. RSCI is wholly owned by the Company.

### (2) Summary of Significant Accounting Policies

#### (a) *Basis of preparation of financial statements*

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. All amounts are stated in United States dollars.

#### (b) *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make informed estimates and judgments 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 those estimates.

#### (c) *Cash and cash equivalents*

Cash and cash equivalents consist of cash and deposits with banks. The Company considers all highly liquid investments with maturity, at the date of purchase, of three months or less to be cash equivalents.

#### (d) *Revenue recognition*

The Company derives its revenue from

1. Sale of Software
2. Implementation, Software development, customer support and consulting services
3. Post contract Support (Maintenance services)

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize revenue

- a. when persuasive evidence of an arrangement exists,
- b. delivery has occurred,
- c. the fee is fixed or determinable, and
- d. collectability is probable.

Post Contract Support or maintenance revenue is deferred and recognized ratably over the term of the maintenance agreement, which is generally one to three years. Deferred revenue includes payments received in advance of maintenance services, which are being recognized as revenue ratably over the term of the maintenance agreement.

Revenues from implementation, software development, consulting, customer support and other services are generally based upon time and materials billings, and are recognized as the related services are performed, customer approval is received, collectability is probable and such revenue are contractually non refundable. These services are separately priced from other deliverables. Amounts collected prior to satisfying the above revenue recognition criteria are classified as deferred revenue.

For contracts that are custom software developments, the Company adopts the percentage of completion method of revenue recognition. The assumptions used to determine percentage of completion be reviewed by the management on a periodic basis in order to ensure that the revenue amount that is recognized indicate the actual value that is completed and the methodology that is followed is consistent and is supported by applicability to multiple projects with similar revenue streams.

(e) *Fixed Assets*

Fixed Assets are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. The Company computes depreciation for all fixed assets using the straight-line method. The estimated useful lives of assets are as follows:

Computer equipment .....	5 years
Furniture and fixtures and office equipment .....	7 years
Purchased software.....	3 years

The Company evaluates the recoverability of its long-lived assets and certain identifiable intangibles, if any, whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. No impairments were recorded in 2014 or 2013.

(f) *Income taxes*

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax 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. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is uncertain.



*(g) Foreign Currency Transactions*

Monetary items held in foreign currency are translated at year-end closing rates; Non-monetary items are retained in the Balance Sheet at historic rates. Revenues and expenditures in foreign currency are accounted at the average rate for the year. Foreign currency transactions are not significant.

*(h) Allowance for doubtful accounts*

Credit is extended based on evaluation of a customers' financial condition and, generally, collateral is not required. Accounts receivable are most often due within 30 to 90 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The Company does not accrue interest on accounts receivable past due.

*(i) Reclassifications*

Certain amounts in prior years' financial statements and related notes have been reclassified as necessary to the current presentation format.

**(3) Corporate recapitalization and Quasi- Reorganization**

As of March 31, 2005, the Company underwent a series of transactions to effect a corporate recapitalization, summarized as follows:

- a) Cumulative amounts due to the Parent for royalties and other dues of \$ 8,623,429 were waived and included in "forgiveness of indebtedness" – related party on the accompanying statement of operations.
- b) Cumulative amounts due to the parent and other affiliates for loans of \$ 7,159,375 were converted to capital through the issuance of 71,593,750 shares at a management determined fair value of \$0.10 per share. Consequent to the issuance, the shares issued and outstanding increased to 197,564,550 from 125,970,800.

The Company underwent "Quasi-reorganization", as defined in ARB No. 43 effective March 31, 2005 pursuant to a Board approval and shareholder approval. Quasi-reorganization is an accounting procedure that eliminates an accumulated deficit in retained earnings and permits the company to proceed on a basis as if it has been legally reorganized. Quasi-reorganization also involves adjusting a company's assets and liabilities to fair value, although no such adjustments were required as part of the Company's transaction. Any remaining deficit in retained earnings is then eliminated by a transfer of amounts from paid in capital, giving the company a "fresh start" and a zero balance in retained earnings. The Company transferred the deficit of \$ 16,790,130 from retained earnings to paid-in capital pursuant to this transaction.

**(4) Accounts receivable**

The accounts receivable amounting to \$2,593,120 (\$1,374,589 as on March 31, 2013) is net of allowance for doubtful receivables made \$40,194 (\$24,737 as on Mar 31, 2013).

For the years ended March 31, 2014, 2013 and 2012 the company has bad debts expenses of \$40,194, \$8,738, and \$57,147 respectively.

The movement in the allowance for doubtful accounts is as follows:

**For the year ended March 31**

	<b>2014</b>	<b>2013</b>
Balance, beginning of year	24,738	57,147
Provision for doubtful accounts	40,194	8,738
Write off of accounts receivable	(24,738)	(41,147)
<b>Balance, end of year</b>	<b>40,194</b>	<b>24,738</b>

**(5) Other current assets**

Other current assets consist of the following:

**For the year ended March 31**

	<b>2014</b>	<b>2013</b>
Prepaid expenses	97,178	115,394

**(6) Fixed Assets**

Fixed Assets consist of the following:

**For the year ended March 31**

	<b>2014</b>	<b>2013</b>
Computer equipment	1,611,680	1,596,768
Furniture & fixtures, office equipment	566,142	553,890
Purchased Software	284,011	280,601
	<b>2,461,833</b>	<b>2,431,259</b>
Accumulated depreciation	(2,412,821)	(2,345,184)
<b>Fixed Assets, net</b>	<b>49,012</b>	<b>86,075</b>

**(7) Financial instruments and concentration of risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash equivalents and accounts receivable. The Company's cash resources are generally invested with financial institutions with high investment grade credit ratings.

A significant portion of the Company's revenues comes from six major customers (Three for 2013 and Four for 2012). The Company generally extends credit to these customers and, therefore, collection of receivables is affected by the financial position of these customers. However, the Company closely monitors extension of significant credit to these customers. These customers accounted for approximately 56% of the total revenue generated by the Company during the year ended March 31, 2014 (48% for 2013 and 52% for 2012) and approximately 69% of accounts receivable at March 31, 2014 (48% as on March 31, 2013 and 35% as on Mar 31, 2012). Two customers individually accounted for more than 10 % of revenues for the year ended March 31, 2014 (Three customers for 2013 and Three customer for 2012).

**(8) Leases**

Certain noncancelable leases are classified as capital leases, and the leased assets are included as part of "Fixed Assets - Net." Other leases are classified as operating leases and are not capitalized. The payments on such leases are recorded as expense. Schedule for the payment of the capital lease are as follows:

The Company has operating lease agreements primarily for leasing office space that expire over the next five years. Future lease rental commitments as of March 31, 2014 are as follows:

For 2014-15	62,275
	<u>62,275</u>

Rent expense for operating leases during fiscal years 2014, 2013 and 2012 were \$171,082, \$ 143,877, and \$ 146,075 respectively.

**(9) Income taxes**

The income tax expense consists of the following:

	For the year ended March 31		
	2014	2013	2012
Current federal & state taxes	8,598	5,644	9,983
<b>Total Income taxes</b>	<u>8,598</u>	<u>5,644</u>	<u>9,983</u>

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the financial statement items that created these differences are:

**For the year ended March 31**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Deferred tax assets:			
Net operating loss carry forwards	6,096,000	6,532,000	6,040,000
Employee benefits	140,000	133,000	92,000
Fixed assets	35,000	25,000	9,000
Expenses currently not deductible for tax purpose	367,000	213,000	289,000
	<u>6,638,000</u>	<u>6,903,000</u>	<u>6,430,000</u>
Total deferred tax assets	6,638,000	6,903,000	6,430,000
Less: Valuation allowance	(6,638,000)	(6,903,000)	(6,430,000)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net deferred tax assets</b>			

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible.

Management considers the scheduled reversal of temporary differences, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods, in which deferred tax assets are deductible, management believes that it is more likely that the Company will not realize any benefits of these deductible differences. Accordingly, a valuation allowance has been established for the entire deferred tax asset.

At March 31, 2014, the company has net operating loss carry forwards for federal and state income tax purposes of approximately \$16,051,927 and \$10,628,034 respectively, which are available to offset future federal and state taxable income, if any. Utilization of such net operating losses may be limited under certain circumstances, such as a "change in ownership" as defined in the Internal Revenue Code.

The reported income tax expense differed from amounts computed by applying the enacted tax rates to income before taxes as a result of the following:

**For the year ended March 31**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net Income before taxes	660,765	(1,452,124)	(1,278,405)
Enacted tax rates	34%	34%	34%
	<u>224,660</u>	<u>(493,722)</u>	<u>(434,658)</u>
Computed expected tax expenses	224,660	(493,722)	(434,658)
Expected state income taxes, net of federal tax-benefit	8598	5,644	9,983
	<u>233,258</u>	<u>(488,078)</u>	<u>(424,675)</u>
Change in valuation allowance	(266,527)	567,126	505,450
Utilization of net operating losses			
Others	41,867	(73,402)	(70,792)
	<u>8,598</u>	<u>5,644</u>	<u>9,983</u>
<b>Total Income tax expenses</b>	<b>8,598</b>	<b>5,644</b>	<b>9,983</b>

**(10) Commitments**

*Retirement benefits to employees:* The Company has a defined contribution 401(k) plan which is available to all regular full time U.S. employees upon three months completion from date of commencement of employment. Employees may contribute up to the maximum allowable by the Internal Revenue Code. The Company voluntarily matches 100% of the employees' contributions up to a maximum of \$3000 per annum of the employee's eligible contribution. In addition, the Company can make additional contributions at the discretion of the Management. Participants are immediately vested in their employee contributions. Employer contributions vest over a five year period. The Company's contributions for fiscal years 2014, 2013 and 2012 were \$34,919,\$49,950 and \$76,928, respectively.

**(11) Common stock**

*Voting:* Each holder of common stock is entitled to one vote per share.

*Liquidation:* In the event of liquidation of the Company, the holders of common stock shall be entitled to receive all of the remaining assets of the Company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of shares of common stock held by the stockholders.

*Holdings:* Certain minority investors hold less than 3% of the common stock outstanding of the Company, with the remainder owned by the Parent.

**(12) Related party transactions**

The Company has significant transactions with its parent company and its subsidiary

Under a distribution agreement, the Company markets personalized assembly applications that have been developed by its parent company, to customers in the United States. Under this agreement, the Company pays its parent company a 40% royalty on license & support services. In the case of services performed by the company to its customers using the technology developed by the parent, the Company pays to the parent for time and material spent at agreed transfer pricing rates

**Summary of Related party transaction:-**

	<b>For the year ended March 31</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b><u>Dues from Related Parties</u></b>		
A. Ramco Systems Ltd.,India	767,999	1,244,194
B. Ramco Systems Canada Inc.	-	114,964
<b>Total</b>	<b>767,999</b>	<b>1,359,158</b>
<b><u>Dues to Related Parties</u></b>		
E. Ramco Systems India	379,196	174,161
<b>Total</b>	<b>379,196</b>	<b>174,161</b>

**A . Receivable from Ramco Systems Limited, India ("Parent Company")**

**For the year ended March 31**

	<u>2014</u>	<u>2013</u>
Opening balance	1,244,194	2,155,019
<u>Cost of services availed:</u>		
Transfer Pricing	(1,029,120)	(845,200)
Salary	(20,049)	(57,268)
Travel	(48,833)	(70,877)
Insurance , Employee advances, Hosting &Marketing	(22,193)	(52,480)
Payments made to RSL, India	644,000	115,000
Receipts from RSL, India	-	-
<b>Closing balance</b>	<b>767,999</b>	<b>1,244,194</b>

**B. Receivable from Ramco Systems Canada Inc. ("Subsidiary")**

	<u>2014</u>	<u>2013</u>
Opening balance	114,964	725,457
<u>Receivable Towards:</u>		
Salary	-	45,794
Travel	-	42,058
Others	-	17,006
Receipts from Ramco Systems Canada Inc.	(114,964)	(715,350)
<b>Closing balance</b>	<b>-</b>	<b>114,964</b>

**C. Payable to Ramco Systems Limited, India (“Parent Company”)**

**For the year ended March 31**

	<u>2014</u>	<u>2013</u>
Opening balance	174,161	429,001
<u>Cost of services availed:</u>		
Transfer Pricing	-	12,481
Royalty	2,047,895	1,077,375
<u>Income from:</u>		
Outsourcing costs	-	-
Payments made to RSL, India	(1,842,859)	(1,344,696)
<b>Closing balance</b>	<b>379,196</b>	<b>174,161</b>

**(13) Earnings per share**

Basic and diluted earnings per share are the same as the Company has no potentially dilutive securities outstanding.

**For the year ended March 31**

	<u>2013</u>	<u>2013</u>	<u>2012</u>
Net income	652,167	(1,446,479)	(1,278,405)
Number of equity shares outstanding (2005: after recapitalization and quasi reorganization as per Note:3)	197,564,550	197,564,550	197,564,550
<b>Earnings per share</b>	<b>\$0.00330</b>	<b>(\$0.00732)</b>	<b>(\$0.00647)</b>

**(14) Business Segment Data:**

The Company operates primarily in one geographic and in one industry segment which sells Software solutions & Services. Accordingly, no segmented information has been presented.