CloudSquads Inc.

CONDENSED BALANCE SHEET AS AT JUNE 30, 2014

	Note	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	1	2,777	2,777
Reserves and surplus	2	454,004	8,180,434
	(A)	**456,781**	**8,183,211**
Current liabilities			
Short-term borrowings	3	9,550,372	5,874,120
Trade payables	4	10,770,017	10,223,132
Other current liabilities	4	6,424,163	10,490
Short-term provisions	5	6,315,479	3,241,584
	(B)	**33,060,031**	**19,349,326**
TOTAL	**(A)+(B)**	**33,516,812**	**27,532,537**
ASSETS			
Non-current assets			
Deferred tax assets	6	1,357,042	180,342
	(A)	**1,357,042**	**180,342**
Current assets			
Trade receivables	7	29,764,495	19,216,560
Cash and bank balances	8	2,160,112	7,185,866
Short-term loans and advances	9	235,163	949,769
	(B)	**32,159,770**	**27,352,195**
TOTAL	**(A)+(B)**	**33,516,812**	**27,532,537**
Summary of significant accounting policies	16		

The accompanying notes are an integral part of the condensed financial statements.

As per our report of even date

For JOSHI APTE & Co.
Firm registration no. 104370W
Chartered Accountants

per C.K. Joshi
Partner
Membership No.30428
Place: Pune
Date : July 26, 2014

For and on behalf of the Board of Directors of
CloudSquads Inc.

Ranga Puranik
Director
Place: Pune
Date : July 26, 2014

Rohit Kamat
Director
Place: Pune
Date : July 26, 2014

CloudSquads Inc.

CONDENSED STATEMENT OF PROFIT AND LOSS FOR THE QUARTER ENDED JUNE 30, 2014

	Note	For the quarter ended June 30, 2014 (In ₹)	For the period ended March 31, 2014 (In ₹)
Income			
Revenue from operations	10	19,538,271	15,840,880
Other Income	11	179,980	-
Total revenue (A)		**19,718,251**	**15,840,880**
Expenses			
Employee benefit expenses	12.1	17,107,660	9,596,038
Cost of technical professionals	12.2	9,168,165	6,998,407
Other expenses	13	2,321,282	1,980,715
Total expenses (B)		**28,597,107**	**18,575,160**
(Loss) before tax (A - B)		**(8,878,856)**	**(2,734,280)**
Tax expense			
- Current tax			182,920
- Deferred tax (credit)		(1,168,565)	(183,120)
Total tax expense		**(1,168,565)**	**(200)**
(Loss) after tax		**(7,710,291)**	**(2,734,080)**
Earnings per equity share	18		
[nominal value of share $ 0.0000053 (Previous year $ 0.0000053)]			
Basic (in ₹)		(0.91)	(0.32)
Diluted (in ₹)		(0.91)	(0.32)
Summary of significant accounting policies	16		

The accompanying notes are an integral part of the condensed financial statements.

As per our report of even date

For JOSHI APTE & Co.
Firm registration no. 104370W
Chartered Accountants

per C.K. Joshi
Partner
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Place: Pune
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Ranga Puranik
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Rohit Kamat
Director
Place: Pune
Date : July 26, 2014

CloudSquads Inc.

CASH FLOW STATEMENT FOR THE QUARTER ENDED JUNE 30, 2014

		For the quarter ended June 30, 2014 (In ₹)	For the period ended March 31, 2014 (In ₹)
Cash flow from operating activities			
Profit/ (Loss) before tax		**(8,878,856)**	**(2,734,280)**
Adjustments for:			
Foreign currency translation reserve		(23,553)	(356,800)
Provision for doubtful receivables (net)		828,240	-
Excess provision in respect of earlier periods/ years written back		(59,197)	-
Operating profit before working capital changes		**(8,133,366)**	**(3,091,080)**
Movements in working capital :			
(Increase)/ Decrease in trade receivables		(11,376,175)	880,073
Decrease in loans and advances		714,606	107,670
Increase in trade payables and current liabilities (including short term borrowings)		10,696,007	3,713,570
Increase in provisions		3,073,174	3,061,440
Operating profit after working capital changes		**(5,025,754)**	**4,671,673**
Direct taxes paid (net of refunds)		-	-
Net cash generated from operating activities	**(A)**	**(5,025,754)**	**4,671,673**
Cash flows from investing activities		**-**	**-**
Net cash generated from investing activities	**(B)**	**-**	**-**
Cash flows from financing activities		**-**	**-**
Net cash generated from financing activities	**(C)**	**-**	**-**
Net increase in cash and cash equivalents (A + B + C)		(5,025,754)	4,671,673
Cash and cash equivalents at the beginning of the period		7,185,866	2,514,193
Cash and cash equivalents at the end of the reporting period		**2,160,112**	**7,185,866**
Components of cash and cash equivalents			
Cash on hand		-	-
Balances with banks			
- on current account		2,160,112	7,185,866
Cash and cash equivalents in cash flow statement as per note 8		**2,160,112**	**7,185,866**

Summary of significant accounting policies (refer note 16)

As per our report of even date

For JOSHI APTE & Co.
Firm registration no. 104370W
Chartered Accountants

per C.K. Joshi
Partner
Membership No.30428
Place: Pune
Date : July 26, 2014

For and on behalf of the Board of Directors of CloudSquads Inc.

Ranga Puranik
Director
Place: Pune
Date : July 26, 2014

Rohit Kamat
Director
Place: Pune
Date : July 26, 2014

CloudSquads Inc.

NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

1. Share capital

	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
Authorised		
8,500,000 Ordinary Shares of $ 0.0000053 each.	USD 44.70	USD 44.70
	USD 44.70	**USD 44.70**
Issued, subscribed and paid-up		
8,500,000 Ordinary Shares of $ 0.0000053 each	2,777	2,777
All Shares are held by the Holding Company viz : Persistent Systems Inc.		
	2,777	**2,777**

2. Reserves and surplus

		As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
A. Foreign currency translation reserve			
Balance as per last financial statements		(356,800)	-
Add: Exchange difference during the reporting period on net investment in non-integral foreign operation		(16,139)	(356,800)
	(A)	**(372,939)**	**(356,800)**
B. Profit and (loss) account			
Balance as on the date of acquisition [refer note 15 (a)]		8,537,234	11,271,314
Add : (Loss) during the reporting period		(7,710,291)	(2,734,080)
	(B)	**826,943**	**8,537,234**
	(A)+(B)	**454,004**	**8,180,434**

3. Short-term borrowings

	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
Advances from related parties (Unsecured, considered good)		
- Persistent Systems Inc.	9,545,319	5,874,120
- Persistent Telecom Solutions Inc.	5,053	-
	9,550,372	**5,874,120**

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NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

4. Trade payables and other current liabilities

	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
Trade payables	10,770,017	10,223,132
	10,770,017	**10,223,132**
Other current liabilities		
- Statutory liabilities	546,504	10,490
- Accrued employee liabilities	1,400,395	-
- Unearned revenue	4,477,264	-
	6,424,163	**10,490**

5. Short-term provisions

	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
Provision for employee benefits		
- Leave encashment	688,712	419,417
- Other employee benefits	5,445,901	2,642,022
Others		
- Provision for Income tax (net of advance tax)	180,866	180,145
	6,315,479	**3,241,584**

6. Deferred tax assets (net)

	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
Deferred tax assets		
- Leave encashment	296,146	180,342
- Provision for doubtful receivables	358,402	-
- Others	702,494	-
	1,357,042	**180,342**

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NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

7. Trade receivables

	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
Outstanding for a period exceeding six months from the date they are due for payment		
Unsecured (considered good)	-	-
Unsecured (considered doubtful)	833,493	-
	833,493	-
Less : Provision for doubtful debts	833,493	-
	-	**-**
Others		
Unsecured (considered good)	29,764,495	19,216,560
Unsecured (considered doubtful)	-	-
	29,764,495	19,216,560
Less : Provision for doubtful debts	-	-
	29,764,495	**19,216,560**
	29,764,495	**19,216,560**

8. Cash and bank balances

	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
Cash and cash equivalents as presented in cash flow statement		
Balances with banks		
On current account	2,160,112	7,185,866
	2,160,112	**7,185,866**

9. Short-term loans and advances

	As at June 30, 2014 (In ₹)	As at March 31, 2014 (In ₹)
Other loans and advances (unsecured considered good)		
Advance recoverable in cash or kind or for value to be received	235,163	949,769
	235,163	**949,769**

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NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

10. Revenue from operations

	For the quarter ended June 30, 2014 (In ₹)	For the period ended March 31, 2014 (In ₹)
Sale of software services (net)	19,538,271	15,840,880
	19,538,271	**15,840,880**

11. Other Income

	For the quarter ended June 30, 2014 (In ₹)	For the period ended March 31, 2014 (In ₹)
Excess provision in respect of earlier periods/ years written back	59,197	-
Miscellaneous Income	120,783	-
	179,980	**-**

12. Personnel Expenses

	For the quarter ended June 30, 2014 (In ₹)	For the period ended March 31, 2014 (In ₹)
12.1 Employee Benefit Expenses		
Salaries and wages	16,559,416	8,985,229
Defined contribution to other funds	496,225	610,809
Staff welfare and benefits	52,019	-
	17,107,660	**9,596,038**
12.2 Cost of technical professionals		
Technical professionals - related parties	6,109,359	2,699,987
Technical professionals - others	3,058,806	4,298,420
	9,168,165	**6,998,407**
	26,275,825	**16,594,445**

13. Other expenses

	For the quarter ended June 30, 2014 (In ₹)	For the period ended March 31, 2014 (In ₹)
Travelling and conveyance	699,275	554,420
Internet expenses	-	38,475
Communication expenses	87,109	45,703
Purchase of software licenses and support expenses	122,852	-
Provision for doubtful receivables(net)	828,240	-
Insurance	39,923	24,102
Legal and professional fees	37,562	905,870
Repairs and Maintenance - Others	5,470	-
Advertisements, sponsorship fees	111,717	92,545
Computer consumables	-	27,997
Auditors' remuneration	13,998	16,854
Books, memberships, subscriptions	217,886	84,228
Guest entertainment	-	143,477
Training and seminars	126,000	-
Miscellaneous expenses	31,250	47,044
	2,321,282	**1,980,715**

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NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

14. Nature of operations

CloudSquads, Inc. is a USA based wholly owned subsidiary of Persistent Systems Inc. The company is engaged in building applications that connects emerging social platforms with leading CRM systems. The company has been acquired by Persistent Systems Inc. on February 10, 2014.

15. Basis of preparation

The condensed financial statements of the company are prepared in accordance with generally accepted accounting principles in India (Indian GAAP) to comply in all material respects with the Accounting Standard notified under the Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 2013 (to the extent notified). These condensed financial statements are prepared on an accrual basis and under the historical cost convention. The accounting policies are consistently applied by the company during the period and are consistent with those used in previous period/ year.

The condensed interim financial statements of the company for the quarter ended June 30, 2014 have been prepared in accordance with Accounting Standard 25 'Interim Financial Reporting' notified by Companies (Accounting Standards) Rules, 2006 (as amended). The form and content in these condensed financial statements conforms to the requirements as applicable to annual complete set of financial statements.

16. Summary of significant accounting policies

(a) Accounting year

The accounting year of the company is from April 01 to March 31. The company was acquired by Persistent Systems Inc. on February 10, 2014. The accounts for the period ended March 31, 2014 have been prepared from the date of acquisition. The surplus in the statement of Profit and Loss as on February 10, 2014 is considered in reserves. Hence the statement of profit and loss of the company for the previous year consists of only the results for the period from February 11, 2014 to March 31, 2014. These financial statements have been prepared only for the purpose of consolidation as per Accounting Standard 21.

(b) Functional currency

The company's functional currency is US dollar.

(c) Use of estimates

The preparation of the financial statements in conformity with Indian GAAP requires the management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent liabilities at the end of reporting period. Although these estimates are based on the management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in the outcomes requiring a material adjustment to the carrying amounts of assets or liabilities in future periods.

(d) Intangible assets

(i) Acquired intangible assets

Intangible assets including software licenses of enduring nature and contractual rights acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Cost comprises the purchase price and any directly attributable cost of bringing the asset to its working condition for its intended use.

Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit and loss when the asset is disposed.

(ii) Research and development cost

Research costs are expensed as incurred. Development expenditure incurred on an individual project is recognized as an intangible asset when the company can demonstrate:
- technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the asset;
- its ability to use or sell the asset;
- how the asset will generate probable future economic benefits;
- the availability of adequate resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during development.

Such development expenditure, until capitalization, is reflected as intangible assets under development.

Following the initial recognition, internally generated intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization of internally generated intangible asset begins when the development is complete and the asset is available for use.

(e) Depreciation and amortization

Depreciation on tangible fixed assets is provided using the Straight Line Method ('SLM') over the useful lives of the assets estimated by the management.

The management estimates the useful lives for the fixed assets as follows:

Assets	Useful lives
Buildings*	25 years
Computers	3 years
Computers - Servers and networks*	3 years
Office equipments	5 years
Plant and equipment*	5 years
Furniture and fixtures*	5 years
Vehicles*	5 years

*For these classes of assets, based on internal assessment the management believes that the useful lives as given above best represent the period over which the management expects to use these assets. Hence the useful lives of these assets are different from the useful lives as prescribed under Part C of Schedule II of the Companies Act 2013.

Individual assets whose cost does not exceed ` 5,000 are fully depreciated in the year of acquisition.

Intangible assets are amortized on a straight line basis over their estimated useful lives commencing from the day the asset is made available for use.

(f) Impairment of tangible and intangible assets

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors.

Recoverable amount of intangible under development that is not yet available for use is estimated at least at each financial period / year end even if there is no indication that the asset is impaired.

An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

(g) Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(i) Income from software services

Revenue from time and material engagements is recognized on time basis in accordance with the terms of the contracts with customers.

In case of fixed price contracts, revenue is recognized based on the milestones achieved as specified in the contracts, on proportionate completion basis.

Revenue from licensing of products is recognized on delivery of products.

Revenue from royalty is recognized on sale of products in accordance with the terms of the relevant agreements.

Revenue from maintenance contracts is recognized on a pro-rata basis over the period of the contract.

Unbilled revenue represents revenue recognized in relation to work done on time and material projects and fixed price projects until the balance sheet date for which billing has not taken place.

Unearned revenue represents the billing in respect of contracts for which the revenue is not recognized.

(ii) Interest

Interest income is recognized on a time proportion basis taking into account the amount outstanding and the rate applicable. Interest income is included under the head 'Other income' in the statement of profit and loss.

(iii) Dividends

Dividend income is recognized when the company's right to receive dividend is established by the reporting date. Dividend income is included under the head 'Other income' in the statement of profit and loss.

(h) Foreign currency translation

(i) Foreign currency transactions and balances

Initial recognition

Foreign currency transactions are recorded in the functional currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Conversion

The transactions are in USD, which are converted for reporting in Indian currency on the following basis. The equity share capital is translated on the date of transaction and fixed assets and investments, if any are translated at the closing rate as at the date of the balance sheet. All current assets and current liabilities are translated at the closing rate as at the date of the balance sheet. All Income and Expense items are converted at weighted average of Inter Bank Selling Rate for the period.

The exchange difference arising out of the year-end conversion is transferred to Foreign Currency Translation Reserve and the said amount is shown under the head "Reserves and Surplus".

NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

Settlement

Revenue, and expenses denominated in foreign currencies are translated using the exchange rate in effect on the date of the transaction. Transaction gains or losses realized upon settlement of foreign currency transactions are included in determining net profit or loss for the period in which the transaction is settled.

(i) Retirement and other employee benefits

Leave encashment

Accumulated leave, which is expected to be utilized within the next twelve months, is treated as short-term employee benefit. The company measures the expected cost of such absences as the additional amount that it expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The company treats accumulated leave expected to be carried forward beyond twelve months, as long-term employee benefit for measurement purposes. Such long-term compensated absences are provided for based on the actuarial valuation using the projected unit credit method at the reporting date. Actuarial gains/losses are immediately taken to the statement of profit and loss and are not deferred.

The company presents the entire leave encashment liability as a current liability in the balance sheet, since it does not have an unconditional right to defer its settlement for twelve months after the reporting date.

(j) Income taxes

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Internal Revenue Services authorities, USA. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income originating during the current reporting period and reversal of timing differences of earlier reporting periods. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognized for all taxable timing differences. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. In situations where the company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that they can be realized against future taxable profits.

At each reporting date, the company re-assesses unrecognized deferred tax assets. It recognizes unrecognized deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realized.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. The company writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realized. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity and the same taxation authority.

NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

(k) Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the period is adjusted for events such as bonus issue, bonus element in a rights issue, share split, and reverse share split (consolidation of shares), if any occurred during the reporting period, that have changed the number of equity shares outstanding, without a corresponding change in resources.

For the purpose of calculating diluted earnings per share, the net profit for the year attributable to the equity shareholders and the weighted average number of equity shares outstanding during the year, are adjusted for the effects of all dilutive potential equity shares.

(l) Provisions

A provision is recognized when the company has a present obligation as a result of past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on the best estimate required to settle the obligation at the reporting date. These estimates are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the company or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably. The company does not recognize a contingent liability but discloses its existence in the financial statements.

(n) Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand and short term deposits with an original maturity period of three months or less.

17. Contingent liability

The company does not have any contingent liability as on June 30, 2014 (Previous year ₹ NIL).

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NOTES FORMING PART OF CONDENSED FINANCIAL STATEMENTS

18. Earnings per share

(Amount in ₹)

Particular		For the quarter ended June 30, 2014	For the period ended March 31, 2014
Basic and Diluted earnings per share			
Basic and Diluted earnings per share (After exceptional and prior period Items)			
Numerator Net profit / (loss) after tax and after exceptional items	**A**	(7,710,291)	(2,734,080)
Denominator Weighted average number of ordinary shares	**B**	8,500,000	8,500,000
Basic and Diluted earnings per share (Face Value of S $ 0.0000053 each)	**A/B**	**(0.91)**	**(0.32)**

19. Previous Period comparatives

Previous period figures have been regrouped wherever necessary to conform with current year's classification.

As per our report of even date

For Joshi Apte &Co.,
Firm registration no. 104370W
Chartered Accountants

For and on behalf of the Board of Directors of CloudSquads Inc.

per C.K. Joshi
Partner
Membership No.30428
Place: Pune
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Ranga Puranik
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