

REPORT OF THE DIRECTORS

Your Directors present their Report together with the Audited Financial Statements for the year ended 31st March, 2009.

The Company is a wholly owned subsidiary of ITC Infotech India Limited (I3L), which is incorporated in India.

Principal Activities

The Company is engaged in providing IT services, software development and support services.

Change in Authorized and Paid-in Capital

During the year under review:

- (i) the Authorized Share Capital of your Company was increased from 50000 common shares - without par value to 185000 common shares - without par value, and
- (ii) ITC Infotech India Limited, the holding company, subscribed to 135000 Common Shares - without par value for cash at US\$ 100 per share aggregating US\$ 13.5 million.

Business Review

Your Company is pleased to report another year of significant Revenue and Profit growth.

The continuing sharp focus in identified core verticals, proactive investments in domain-led service offerings and deployment of a trained sales force in defined markets have yielded encouraging results in terms of acquisitions of several marquee, high potential clients, significant scaling up of revenues on several current accounts and a growing funnel of prospects for your Company.

Revenues have grown to US\$ 26.17 million (previous year US\$ 18.09 million). Gross profits grew by 50% to US\$ 7.05 million (previous year US\$ 4.69 million). Net profit was recorded at US \$ 1.05 million (previous year US \$ 0.43 million).

Your Company's performance is encouraging given the backdrop of the US market which was severely impacted by the sub-prime crisis followed by the upheaval in the financial markets, which led to a deep recession in the US and a general loss of consumer confidence.

During the year under review, your Company, in line with the inorganic growth strategy aimed at deepening capabilities and considering the strategic fit and synergies, acquired 100% Membership Interest of Pyxis Solutions, LLC, a New York limited liability company and a leading Testing and Quality Assurance company in the BFSI segment in USA. This strategic acquisition, an important milestone, further consolidated your Company's position in North America. Synergies between the two companies, will create large opportunities for cross-selling by leveraging their existing customer relationships.

Your Company is pleased to report that it acquired several customers during the year, with the prospect of revenue growth from these customers in the next year. Your Company is confident that this expansion of customer base, combined with a strong sales funnel, will provide the platform for a prosperous 2009-10.

Directors

In terms of Article III Clause 4(a) of the By Laws of the Company and as nominated by I3L, the Board of Directors of your Company at its meeting held on 17th November, 2008 appointed Mr. K. Vaidyanath (in place of Mr. A. Singh) as Director of the Company to hold office until the next succeeding Annual Meeting of shareholders of the Company. Your approval for appointment of Mr. Vaidyanath as a Director of the Company is being sought at the Annual Meeting of the Company for the financial year ended 31st March, 2009.

In terms of Article III Clause 6A of the By Laws of the Company, Mr. K. Vaidyanath, being the Chairman of I3L, became the Chairman of the Board of Directors of the Company with effect from 17th November, 2008.

In terms of Article III Clause 4(c) of the By Laws of the Company and as nominated by I3L, Mr. R. Srinivasan was appointed as Director of the Company at a Special Meeting of the Shareholders of the Company, held on 17th November, 2008.

M/s. B.B. Chatterjee, S. Puri, B. Parameswar and R. Srinivasan, Directors of the Company, will retire at the Annual Meeting, and, being eligible, offer themselves for re-appointment.

Wholly Owned Subsidiary Pyxis Solutions, LLC

Consequent to acquisition of 100% Membership Interest, Pyxis Solutions, LLC (Pyxis) became a wholly owned subsidiary of the Company with effect from 11th August, 2008. Your Company also made a capital contribution of a sum of US\$ 2.5 million into Pyxis in terms of the Membership Interest Purchase Agreement dated 11th August, 2008 entered into between the erstwhile owners of Pyxis, the Company and Pyxis.

Pyxis, a Sole Member company, does not have a Board of Directors. It operates under an Operating Agreement dated 11th August, 2008 entered into between Pyxis and the Company, as a Sole Member.

For the fifteen month period ended 31st March, 2009, Pyxis Solutions, LLC registered a Turnover of USD 14.17 million (previous year-12 months- USD 14.46 million) and a Net Profit of USD 0.19 million (previous year-12 months - USD 2.51 million).

Auditors

M/s. Amper, Politziner & Mattia, LLP, Certified Public Accountants and Auditors of the Company, offer themselves for reappointment.

On behalf of the Board

11th May, 2009

**S. Puri
Director**

Report of Independent Certified Public Accountants

Board of Directors
ITC Infotech (USA), Inc.

We have audited the accompanying balance sheets of ITC Infotech (USA), Inc. as of March 31, 2009 and 2008, and the related statements of operations and accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the management of ITC Infotech (USA), Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

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. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. 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.

The Indian Rupee equivalent figure have been included in the financial statements as required by the parent company, and is not intended to a presentation in conformity with accounting principles generally accepted in the United States of America.

On August 11, 2008, the Company acquired the membership interests of Pyxis Solutions, LLC ("Pyxis"). This supplemental information does not include the financial position or activities of Pyxis as required under accounting principles generally accepted in the United States ("US GAAP"). Accordingly, this does not purport to be presented under US GAAP. Further, the difference between the purchase price and the fair value of assets and liabilities acquired is presented as intangible assets, net of amortization, rather than as an investment in Pyxis solutions LLC. Accordingly, this supplemental financial statement does not purport to be presented under US GAAP.

In our opinion, the financial statements, referred to above, except as noted above, present fairly, in all material respects, the financial position of ITC Infotech (USA), Inc. as of March 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles applicable in the United States of America.

.....LLP

May 11, 2009
Edison, New Jersey

BALANCE SHEET AS AT MARCH 31ST 2009

	<u>2009 (\$)</u>	<u>2009 (Rs.)</u>	<u>2008 (\$)</u>	<u>2008 (Rs.)</u>
<u>Assets</u>				
Current assets				
Cash and cash equivalents	2,339,191	118,643,768	20,287	813,914
Accounts receivable, net of allowance for doubtful accounts of \$433,390 (Rs. 21,981,524) and \$157,804 (Rs. 6,331,080) for 2009 and 2008, respectively	3,593,109	182,242,488	6,316,937	253,435,499
Due from ITC Infotech Ltd, (UK), net	245,109	12,431,928	-	-
Advances to employees	56,548	2,868,115	78,729	3,158,602
Deferred income taxes	888,243	45,051,685	-	-
Total current assets	<u>7,122,200</u>	<u>361,237,984</u>	<u>6,415,953</u>	<u>257,408,015</u>
Equipment, software, furniture and fixtures and leasehold improvements				
	582,275	29,532,988	504,691	20,248,209
Less: Accumulated depreciation and amortization	<u>316,444</u>	<u>16,050,040</u>	<u>217,393</u>	<u>8,721,810</u>
	<u>265,831</u>	<u>13,482,948</u>	<u>287,298</u>	<u>11,526,399</u>
Intangible assets				
	12,502,113	634,107,171	-	-
Less: Accumulated amortization	<u>489,938</u>	<u>24,849,655</u>	-	-
	12,012,175	609,257,516	-	-
Other assets, principally unsecured advances	345,416	17,519,500	85,039	3,411,746
	<u>19,745,622</u>	<u>1,001,497,948</u>	<u>6,788,290</u>	<u>272,346,160</u>
<u>Liabilities and Stockholder's Equity</u>				
Current liabilities				
Accounts payable	851,294	43,177,632	\$958,547	38,456,892
Accrued expenses and other current liabilities	1,064,233	53,977,897	989,667	39,705,422
Accrued payroll and payroll taxes	265,687	13,475,645	358,207	14,371,263
Due to ITC Infotech Ltd, (UK), net	-	-	11,207	449,626
Due to ITC Infotech India Ltd., net	<u>1,776,421</u>	<u>90,100,073</u>	<u>3,265,371</u>	<u>131,006,691</u>
Total current liabilities	<u>3,957,635</u>	<u>200,731,247</u>	<u>5,582,999</u>	<u>223,989,894</u>
Non current liabilities				
Deferred income taxes	35,204	1,785,547	-	-
Commitments and contingencies				
Stockholder's equity				
Capital stock, no par value; 185,000 shares (2008 – 50,000) authorized; 182,000 shares (2008 – 47,000) issued and outstanding at March 31, 2009	200,000	10,144,000	200,000	8,024,000
Additional paid-in capital	18,000,000	912,960,000	4,500,000	180,540,000
Accumulated deficit	<u>(2,447,217)</u>	<u>(124,122,846)</u>	<u>(3,494,709)</u>	<u>(140,207,734)</u>
Total stockholder's equity	<u>15,752,783</u>	<u>798,981,154</u>	<u>1,205,291</u>	<u>48,356,266</u>
	<u>19,745,622</u>	<u>1,001,497,948</u>	<u>6,788,290</u>	<u>272,346,160</u>

On behalf of the Board

Date: May 11, 2009

A Sharma
Financial ControllerL N Balaji
PresidentS Puri
Director

ITC INFOTECH (USA), INC.

STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT FOR THE YEAR ENDED MARCH 31, 2009

	<u>2009 (\$)</u>	<u>2009 (Rs.)</u>	<u>2008 (\$)</u>	<u>2008 (Rs.)</u>
Revenues				
Service fees	24,675,475	1,251,540,092	17,428,962	699,249,955
Account management fee-affiliates	58,914	2,988,118	-	-
	<u>1,433,967</u>	<u>72,730,806</u>	<u>656,935</u>	<u>26,356,232</u>
Project fees	26,168,356	1,327,259,016	18,085,897	725,606,187
Total revenues				
 Cost of revenues, principally employment costs and fees charged by affiliates	<u>19,114,088</u>	<u>969,466,543</u>	<u>13,397,473</u>	<u>537,506,639</u>
 Gross profit	7,054,268	357,792,473	4,688,424	188,099,548
 General and administrative expenses	5,786,891	293,511,112	4,184,776	167,893,240
Amortization of intangible assets	489,938	24,849,655	-	-
Total operating costs	<u>6,276,829</u>	<u>318,360,767</u>	<u>4,184,776</u>	<u>167,893,240</u>
 Operating income	<u>777,439</u>	<u>39,431,706</u>	<u>503,648</u>	<u>20,206,308</u>
 Other income	<u>33,394</u>	<u>1,693,744</u>	<u>26,040</u>	<u>1,044,747</u>
 Income before income tax expense	810,833	41,125,450	529,688	21,251,055
 Income tax expense (benefit)				
Current	189,861	9,629,750	101,923	4,089,132
Deferred	<u>(426,520)</u>	<u>(21,633,094)</u>	<u>-</u>	<u>-</u>
Total income tax expense (benefit)	<u>(236,659)</u>	<u>(12,003,344)</u>	<u>101,923</u>	<u>4,089,132</u>
 Net income	<u>1,047,492</u>	<u>53,128,794</u>	<u>427,765</u>	<u>17,161,923</u>
 Accumulated deficit at beginning of year	<u>(3,494,709)</u>	<u>(177,251,640)</u>	<u>(3,922,474)</u>	<u>(157,369,657)</u>
 Accumulated deficit at end of year	<u><u>(2,447,217)</u></u>	<u><u>(124,122,846)</u></u>	<u><u>(3,494,709)</u></u>	<u><u>(140,207,734)</u></u>

On behalf of the Board

Date: May 11, 2009

A Sharma
Financial Controller

L N Balaji
President

S Puri
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2009

	<u>2009 (\$)</u>	<u>2009 (Rs.)</u>	<u>2008 (\$)</u>	<u>2008 (Rs.)</u>
Cash flows from operating activities				
Net income	1,047,492	53,128,794	427,765	17,161,923
Non cash items - adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	593,519	30,103,284	54,416	2,183,169
Deferred income taxes	(426,520)	(21,633,094)	-	-
Bad debt expense	275,586	13,977,722	29,034	1,164,834
(Increase) decrease in assets				
Accounts receivable	2,448,242	124,174,885	(3,639,013)	(145,997,157)
Due from ITC Infotech Ltd. (UK), net	(256,316)	(13,000,348)	-	-
Advances to employees	22,181	1,125,020	(23,944)	(960,637)
Other assets	(1,566)	(79,428)	(59,234)	(2,376,470)
Increase (decrease) in liabilities				
Accounts payable	(107,253)	(5,439,872)	542,024	21,746,000
Accrued expenses and other liabilities	74,567	3,781,988	633,867	25,430,709
Accrued payroll and payroll taxes	(92,520)	(4,692,614)	114,981	4,613,053
Due to ITC Infotech India Ltd. and ITC Infotech Ltd. (UK)	(1,488,950)	(75,519,544)	1,593,455	63,929,419
Net cash provided by (used in) operating activities	<u>2,088,462</u>	<u>105,926,793</u>	<u>(326,649)</u>	<u>(13,105,157)</u>
Cash flows from investing activities				
Capital expenditures	(82,114)	(4,164,822)	(272,946)	(10,950,578)
Cash paid for acquisition of Pyxis (see Note 3)	(12,928,633)	(655,740,266)	-	-
Notes receivable	(258,811)	(13,126,894)	-	-
Net cash used in investing activities	<u>(13,269,558)</u>	<u>(673,031,982)</u>	<u>(272,946)</u>	<u>(10,950,578)</u>
Cash flows from financing activities				
Capital contribution from ITC Infotech India Ltd.	13,500,000	684,720,000	-	-
Net cash provided by financing activities	<u>13,500,000</u>	<u>684,720,000</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>2,318,904</u>	<u>117,614,811</u>	<u>(599,595)</u>	<u>(24,055,735)</u>
Cash and cash equivalents at beginning of year	<u>20,287</u>	<u>1,028,957</u>	<u>619,882</u>	<u>24,869,649</u>
Cash and cash equivalents at end of year	<u><u>2,339,191</u></u>	<u><u>118,643,768</u></u>	<u><u>20,287</u></u>	<u><u>813,914</u></u>

Supplemental disclosures of cash flow information:

Income taxes paid were \$124,145 (Rs. 6,296,634) and \$22,991 (Rs. 922,391) during 2009 and 2008, respectively.

On behalf of the Board

Date: May 11, 2009

A Sharma
Financial Controller

L N Balaji
President

S Puri
Director

NOTES TO ACCOUNTSNote 1 - Business Background and Principal Transactions with Affiliates

ITC Infotech (USA), Inc. (the "Company") is principally engaged in the information technology services business. Its customers are commercial entities and software developers throughout the United States of America. The work is usually performed under contracts which specify fixed hourly rates (which depend upon the skill level of the employee staffed at the customer's location) and which vary in length, but are typically less than two years in duration. The Company generates revenue through specific projects, whereby the Company and its overseas affiliates undertake the responsibility to deliver specific software solutions ("Project Business") on a contractual basis. Substantially all of these contracts for Project Business were co-sourced, in terms of the marketing agreement with its affiliates (see Note 4), or fulfilled with resources drawn from affiliates, on a contractual basis, to supplement the Company's resources. The Company either receives fees from affiliates for client account management in respect of work contracted between ITC Infotech India or ITC Infotech Ltd (UK) with clients in the United States, or incurs subcontract costs for technical services provided by affiliates to support customer contracts entered into by the Company. The Company continues to be dependent on such support from its affiliates.

The Company is a wholly-owned subsidiary of ITC Infotech India Ltd. ("Infotech India"), an Indian company. There are 185,000 common shares authorized of which 182,000 have been issued, and are outstanding, to Infotech India. ITC Infotech Ltd. ("Infotech UK") is also a wholly-owned subsidiary of ITC Infotech India, Ltd.

On August 11, 2008, the Company acquired membership interests of Pyxis Solutions, LLC ("Pyxis"). Pyxis was formed as a New York State limited liability company in 2000. One of the founders of Pyxis also owns a majority interest in an entity performing similar services in Singapore ("Pyxis Singapore"). Pyxis is principally engaged in the information technology services business offering Quality Assurance (QA) solutions and testing services. Its customers are commercial entities throughout the United States of America.

Note 2 - Summary of Significant Accounting PoliciesBasis of Presentation

The Financial Statements of the Company is prepared in accordance with accounting principles generally accepted in the USA, the country of incorporation and are represented in U.S. dollars. As required by the parent company, the Indian Rupee equivalent figures, arrived at by applying the year end interbank exchange rate of US\$1 = Rs. 50.72 (2008: US\$ 1= Rs. 40.12) as provided by the parent company, have been included. As required by the parent company, this presentation does not consolidate the results of its wholly-owned subsidiary Pyxis. Accounting principles generally accepted in the United States would require consolidation of a wholly-owned subsidiary. So accordingly, this supplemental presentation does not purport to follow US GAAP. Furthermore, as permitted by accounting principles generally accepted in the United States, the impact of the acquisition of Pyxis was not pushed-down to Pyxis. Accordingly, the intangible assets presented herein relate to the excess purchase price over the fair value of current assets and liabilities.

Recognition of RevenueService Revenue

Service revenues are based upon hours worked by Company employees on customer assignments and are recognized when the work is performed. Revenue is determined by multiplying the hours worked by the contractual billing rates. Substantially all customers are billed weekly, biweekly, or monthly.

Recognition of Revenue

Project Revenue

Revenues on the project business are recognized as earned, typically in the month the service is performed. Costs associated with the use of subcontractors to fulfill such project business are recognized in the same period.

In accordance with AICPA Statement of Position 97-22("SOP 97-2"), "Software Revenue Recognition," and AICPA Statement of Position 98-9 ("SOP 98-9"), the Company recognizes software revenues on delivery when a non-cancelable agreement has been executed, fees are fixed and determinable and collection is considered probable unless there is significant uncertainty about customer acceptance, in which case revenues are recognized upon such acceptance. Losses on contracts are recognized when determinable.

Account Management Fees

Fees for client account management in respect of work contracted by Infotech India and Infotech UK with clients in the United States are billed monthly at a predetermined rate applied on the amount billed by Infotech India and Infotech UK, to its clients.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash accounts which are not subject to withdrawal restrictions or penalties, and certificates of deposit with maturities of ninety days or less, when purchased, to be cash or cash equivalents.

Accounts Receivable

Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are generally due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company creates an allowance for accounts receivable when they become uncollectible, despite best efforts to collect.

Equipment, Software, Furniture and Fixtures and Leasehold Improvements

Equipment, purchased or internally developed software, furniture and fixtures and leasehold improvements are stated at cost. Depreciation is provided under various methods based upon the estimated useful lives of the assets, with such lives ranging up to four years.

Income Taxes

The Company accounts for income taxes pursuant to Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes". SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Future tax benefits, such as net operating loss carry forwards, are recognized to the extent that realization of these benefits is considered to be more likely than not. If the future realization of such benefits is uncertain, then a valuation allowance is provided.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required 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, as well as the reported amounts of revenues and expenses during the reporting period. Although actual results could differ from

those estimates, in the opinion of management such estimates would not materially affect the financial statements.

Reclassifications

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

Advertising Costs

Advertising costs are expensed as incurred.

Intangible Assets

Intangible assets are stated at fair value at the date of Pyxis acquisition and are amortized on straight-line method over their estimated useful life of 4-8 years. Goodwill is not amortized but is subjected to impairment consideration.

Long-Lived Assets

The Company follows Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets". Accordingly, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable, the Company assesses the recoverability of the asset. No impairment charge has been recorded in 2009 or 2008.

Impairment of Goodwill

The Company tests goodwill for impairment annually on March 31 at the reporting unit level using a fair value approach, in accordance with the provisions of Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets". Annual testing resulted in no impairments of goodwill in fiscal year ended March 31 2009. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests.

Capitalized Software Costs

Costs incurred for development of computer software for internal use of the Company are capitalized. Any costs incurred in the preliminary stages of development and in the operating stages of the software are expensed immediately. Capitalized software costs are amortized over a period of five years or over the estimated useful lives, whichever is lower. There were no such costs capitalized in 2009 or 2008. Accumulated amortization of these costs is \$22,651 (Rs. 1,148,859) and \$18,120 (Rs. 726,974) at March 31, 2009 and 2008, respectively.

Summary of Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which is effective for calendar year companies on January 1, 2008. The Statement defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The Statement codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"), which delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until the Company's 2010 fiscal year end. Since SFAS 157 is not applicable to the Company for the

year ended March 31, 2009, the Company has not evaluated the impact of the required adoption of SFAS 157. In any event, the intangible assets were recognized for the first time in the Company's financial statements, post acquisition of Pyxis in August 200 , on the basis of an independent valuation.

On July 1, 2007, the FASB issued FASB interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109"(FIN 48).FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. Applicability of FIN 48 to non-public entity has been deferred to such entity's first fiscal year that begins after December 15, 2008. As a result FIN 48 is not applicable to the Company for the fiscal year ended March 31, 2009 and the impact of the required 2010 adoption of FIN 48 has not been evaluated.

Note 3 - Acquisition of Membership Interests

On August 11, 2008, the Company acquired the membership interests of Pyxis for \$12,434,878 (Rs. 630,697,011). Accordingly, Pyxis became a wholly owned subsidiary from that date. In connection with the Membership Interest Purchase Agreement ("MIPA"), each of the two founders of Pyxis, receive certain allocable portion of Pyxis's earning as "contingent anniversary payments". Such contingent anniversary payments are contingent on the Pyxis's EBITDA as determined from the first anniversary income statement and the second anniversary income statement in accordance with the terms of meeting or exceeding the target EBITDA. No such contingent amounts have been recognized through March 31, 2009 in accordance with SFAS 141. Such additional payments, if any, will likely increase the goodwill recognized on this transaction. In accordance with MIPA, the Company has provided an irrevocable standby letter of credit, expiring on April 30, 2011 for \$4,650,000 (Rs.235,848,000), to each of the two founders of Pyxis as a security for full and timely discharge of contingent anniversary payments. The Company received the funding for this acquisition from an additional contribution of capital from its parent company of \$13,500,000 (Rs. 684,720,000).

The Company recorded this transaction as a purchase, and the results of Pyxis's operations are included from the date of the acquisition and forward. The fair value of current assets and liabilities approximated their book value at the date of the acquisition. The fair value of the intangible assets, as described in Note 6, was determined by an independent outside appraiser. For income tax purposes, Pyxis will be considered a disregarded entity, and accordingly, its results of operations will be included in the income tax return of the Company from the date of acquisition and forward. The Company will recognize the step-up of basis in the intangible assets of Pyxis for income tax purposes, although they will be amortized over 15 years for income tax purposes. As a result of the expected additional taxable income to be generated by Pyxis, the Company released \$426,520 (Rs. 21,633,094) of its deferred tax asset valuation allowance, as the Company believes the deferred tax asset would be realized, and such release is reflected as a reduction of goodwill.

The total purchase price for the acquisition of membership interest and allocation thereof, is as follows:

	\$	Rs.
Purchase price	12,434,878	630,697,011
Transaction costs	493,755	25,043,255
Total purchase price	12,928,633	655,740,266
<u>Allocation of purchase price</u>		
Current assets acquired	2,567,021	130,199,305
Less: Current liabilities assumed	957,064	48,542,282

Net assets acquired (working capital)	1,609,957	81,657,023
Identifiable intangible assets (see Note 6)	5,390,000	273,380,800
Goodwill (see Note 6)	5,502,156	279,069,349
Add: Deferred tax benefit adjusted (see Note 3)	426,520	21,633,094
Goodwill (on acquisition before deferred tax adjustment)	5,928,676	300,702,443
Total purchase price	12,928,633	655,740,266

Note 4 - Related Party Transactions

The Company has had transactions with the following parties:

Year Ended March 31,

	<u>2009 (\$)</u>	<u>2009 (Rs.)</u>	<u>2008 (\$)</u>	<u>2008 (Rs.)</u>
<u>Transactions with Infotech India</u>				
Costs for project consultations / other expenses paid / payable to Infotech India	7,356,125	373,102,660	4,904,433	196,765,852
Project /other expenses reimbursements from Infotech India	190,564	9,665,406	491,600	19,722,192
<u>Transactions with Infotech UK</u>				
Service / Account Management fees / others recognized as revenue	628,770	31,891,214	876,034	35,146,484
Costs for project consultations / other expenses paid / payable to Infotech UK	106,752	5,414,461	83,102	3,334,052
Project/other expenses reimbursements, from Infotech UK	219,491	11,132,584	256,486	10,290,218
<u>Transactions with Pyxis</u>				
Other expenses reimbursements paid to Pyxis	22,107	1,121,267	-	-
Other expenses reimbursements from Pyxis	39,189	1,987,666	-	-

Other assets, includes \$75,000 (Rs. 3,804,000) advance to Pyxis Singapore, recoverable in three equal monthly installments commencing April 1, 2009 (see Note 1).

Other assets, includes \$258,811 (Rs.13,126,894) notes receivable from officers of Pyxis. This advance is adjustable against the 'contingent anniversary payments' (see Note 3).

Note 5 - Accounts Receivable

Accounts receivable includes both billed and unbilled receivable. Changes in the consolidated allowance for doubtful accounts in 2009 and 2008 are as follows:

	<u>2009 (\$)</u>	<u>2009(Rs.)</u>	<u>2008 (\$)</u>	<u>2008(Rs.)</u>
Beginning balance	157,804	8,003,819	128,770	5,166,252
Increase to allowance	275,586	13,977,722	29,034	1,164,844
Accounts written off	-	-	-	-
Ending balance	<u>433,390</u>	<u>21,981,541</u>	<u>157,804</u>	<u>6,331,096</u>

Unbilled receivables were \$0 and approximately \$118,899 (Rs.4,770,228) as of March 31, 2009 and 2008, respectively.

Note 6 - Intangible assets

The Company has fair valued assets arising on acquisition of membership interest in accordance with tatement of inancial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" through an independent outside appraiser. Accordingly, the components of intangible assets (including goodwill) arising on valuation of such assets as at March 31, 2009, are as follows:

Identifiable intangible assets

	Weighted average life	Currency	Gross carrying amount	Accumulated amortization	Net carrying amount
Trade name	8	\$	300,000	23,938	276,062
		Rs.	15,216,000	1,214,153	14,001,847
Non-compete agreement	4	\$	90,000	14,363	75,637
		Rs.	4,564,800	728,492	3,836,308
Customer relationship	8	\$	3,900,000	311,199	3,588,801
		Rs.	197,808,000	15,783,995	182,024,005
Know how	5	\$	1,100,000	140,438	959,562
		Rs.	55,792,000	7,123,015	48,668,985
Total		\$	<u>5,390,000</u>	<u>489,938</u>	<u>4,900,062</u>
		Rs.	<u>273,380,800</u>	<u>24,849,655</u>	<u>248,531,145</u>
<u>Goodwill</u> (on acquisition after deferred tax benefit adjustment) (see Note 3)		\$	5,502,156	-	5,502,156
		Rs.	279,069,349	-	279,069,349
Total intangible assets on acquisition		\$	<u>10,892,156</u>	<u>489,938</u>	<u>10,402,218</u>
		Rs.	<u>552,450,149</u>	<u>24,849,655</u>	<u>527,600,494</u>

At March 31, 2009 the expected amount of amortization of identifiable intangible assets, over the next five years are as follows:

	\$	Rs
2009-2010	767,500	38,927,600
2010-2011	767,500	38,927,600
2011-2012	767,500	38,927,600
2012-2013	753,137	38,199,108
2013-2014	604,562	30,663,367
Total amortization expense	<u>3,660,199</u>	<u>185,645,275</u>

Note 7 - Commitments and Contingent Liabilities

Leases

The Company has leased offices, storage spaces and apartments under noncancelable operating leases, some of these expiring through fiscal 2013. One such office has been leased from King Maker Marketing Inc. whose parent Company (ITC Limited) is same as the Company's ultimate parent Company. Total rent and other reimbursements to King Maker Marketing Inc. was approximately \$78,438 (Rs.3,978,376) and \$ 59,275 (Rs. 2,378,113) for the years ended March 31, 2009 and 2008, respectively. Total rent expense under all facilities leases was approximately \$143,746 (Rs. 7,290,797) and \$149,342 (Rs. 5,991,613) for the years ended March 31, 2009 and 2008, respectively.

In addition, the Company has entered into various noncancelable operating leases for the rental of equipment.

The future minimum annual lease payments at March 31, 2009 are as follows:

	<u>Offices</u>		<u>Equipment</u>		<u>Total</u>	
	\$	Rs	\$	Rs	\$	Rs.
2009-2010	141,234	7,163,385	5,101	258,723	146,335	7,422,108
2010-2011	107,411	5,447,901	1,204	61,067	108,615	5,508,968
2011-2012	85,533	4,338,220	1,204	61,067	86,737	4,399,287
2012-2013	21,436	1,087,236	1,204	61,067	22,640	1,148,303
2013-2014	-	-	301	15,267	301	15,267
Total Minimum Lease payments	355,614	18,036,742	9,014	457,191	364,628	18,493,933

Note 8 - Income Taxes

The provision for income taxes consists of the following:

	<u>Years Ended March 31</u>			
	<u>2009 (\$)</u>	<u>2009 (Rs.)</u>	<u>2008 (\$)</u>	<u>2008 (Rs.)</u>
Federal Alternate Minimum Tax	28,626	1,451,911	14,404	577,888
State and local taxes	161,235	8,177,839	87,518	3,511,244
Total current expense	189,861	9,629,750	101,922	4,089,132

The Company's 2009 and 2008 expected Federal income tax provision has been offset by the utilization of net operating loss carry forwards. The Company, however, is liable for Alternate Minimum Tax (AMT) and accordingly a provision of approximately USD \$ 28,626 (Rs. 1,451,911) and \$14,404 (Rs.577,888) has been made for the years ended March 31, 2009 and 2008, respectively.

Deferred tax assets and liabilities consisted of the following:

	<u>2009(\$)</u>	<u>2009 (Rs.)</u>	<u>2008 (\$)</u>	<u>2008 (Rs.)</u>
Net Operating Loss carry forwards	293,400	14,881,248	916,047	36,751,806
Other temporary differences (net)	511,244	25,930,296	360,763	14,473,811
Federal Alternate Minimum Tax carry over	48,395	2,454,594	-	-
Valuation allowance	-	-	(1,276,810)	(51,225,617)
Net deferred tax asset	<u>853,039</u>	<u>43,266,138</u>	<u>-</u>	<u>-</u>

During the year ended March 31 2009, the Company has used a substantial portion of the net operating loss carry forwards ("NOL's") for Federal income tax purposes. At March 31, 2009, the Company has NOL, of approximately \$862,942 (Rs.43,768,418) available to offset future taxable income, as summarized below. The Company does not have available net operating loss carry forwards in any of the states in which it files income tax returns, and accordingly a current tax provision is required.

Operating loss carry forwards for Federal income tax purposes will expire as follows:

	\$	Rs.
2023	39,396	1,998,165
2024	359,871	18,252,657
2025	435,527	22,089,929
2026	10,805	548,030
2027	17,343	879,637
	<u>862,942</u>	<u>43,768,418</u>

During the year ended March 31, 2009, as management became assured that the deferred tax assets were more likely than not to be realized, the Company released its entire valuation allowance against its deferred tax assets. \$426,520 (Rs. 21,633,094) of such release was attributable to the taxable income expected to be generated by Pyxis, and therefore offset against goodwill, and \$426,520 (Rs.21,633,094) of such release was attributable to the expected taxable income to be generated by the Company, and therefore recognized as an income tax benefit.

Note 9 - Concentration of Customer Sales

A significant portion of the Company's sales are to several key customers, some of which are also agencies providing software consulting services to commercial entities and software developers. Three such key customers accounted for approximately 61% (37%, 17% and 7%) and approximately 55% (27%, 21% and 7%) of the Company's net revenues for the years ended March 31, 2009 and 2008, respectively. Accounts receivable from these customers approximated 41% (24%, 11%, and 6%) of total accounts receivable at March 31, 2009.