

NETSOL TECHNOLOGIES INC

Form 10-Q

November 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2016

☐ For the transition period from _____ to _____

Commission file number: 0-22773

NETSOL TECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

95-4627685

(State or other Jurisdiction of (I.R.S. Employer NO.)

Incorporation or Organization)

Edgar Filing: NETSOL TECHNOLOGIES INC - Form 10-Q

24025 Park Sorrento, Suite 410, Calabasas, CA 91302
(Address of principal executive offices) (Zip Code)

(818) 222-9195 / (818) 222-9197

(Issuer's telephone/facsimile numbers, including area code)

Indicate by check mark whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☐

Small Reporting
Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ☐ No ☒

The issuer had 10,912,032 shares of its \$.01 par value Common Stock and no Preferred Stock issued and outstanding as of November 11, 2016.

NETSOL TECHNOLOGIES, INC.

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and June 30, 2016</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended September 30, 2016 and 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2016 and 2015</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis or Plan of Operation</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	33
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A Risk Factors</u>	34
<u>Item 2. Unregistered Sales of Equity and Use of Proceeds</u>	34
<u>Item 3. Defaults Upon Senior Securities</u>	35
<u>Item 4. Mine Safety Disclosures</u>	35
<u>Item 5. Other Information</u>	35
<u>Item 6. Exhibits</u>	35

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

**NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	As of September 30, 2016	As of June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,156,437	\$ 11,557,527
Accounts receivable, net of allowance of \$500,853 and \$492,498	7,142,255	9,691,229
Accounts receivable, net - related party	5,384,573	5,691,178
Revenues in excess of billings	13,358,858	10,493,096
Revenues in excess of billings - related party	682,049	804,168
Other current assets	3,192,425	2,214,628
Total current assets	40,916,597	40,451,826
Restricted cash	90,000	90,000
Property and equipment, net	22,612,752	22,774,435
Other assets	1,604,731	842,553
Intangible assets, net	19,326,259	19,674,033
Goodwill	9,516,568	9,516,568
Total assets	\$ 94,066,907	\$ 93,349,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,389,128	\$ 5,962,770
Current portion of loans and obligations under capitalized leases	4,408,173	4,440,084
Unearned revenues	4,419,692	4,739,214
Common stock to be issued	88,324	88,324
Total current liabilities	15,305,317	15,230,392
Long term loans and obligations under capitalized leases; less current maturities	539,859	477,692
Total liabilities	15,845,176	15,708,084
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 500,000 shares authorized; Common stock, \$.01 par value; 14,500,000 shares authorized; 10,882,281 shares issued and 10,855,002 outstanding as of September 30, 2016 and 10,713,372 shares issued and 10,686,093	108,823	107,134

Edgar Filing: NETSOL TECHNOLOGIES INC - Form 10-Q

outstanding as of June 30, 2016		
Additional paid-in-capital	122,367,231	121,448,946
Treasury stock (27,279 shares)	(415,425)	(415,425)
Accumulated deficit	(39,089,079)	(37,323,360)
Stock subscription receivable	(602,811)	(783,172)
Other comprehensive loss	(17,960,133)	(18,730,494)
Total NetSol stockholders' equity	64,408,606	64,303,629
Non-controlling interest	13,813,125	13,337,702
Total stockholders' equity	78,221,731	77,641,331
Total liabilities and stockholders' equity	\$94,066,907	\$93,349,415

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended September 30,	
	2016	2015
Net Revenues:		
License fees	\$3,499,860	\$1,193,354
Maintenance fees	3,402,821	3,012,238
Services	5,806,717	6,753,873
License fees - related party	246,957	-
Maintenance fees - related party	130,631	158,231
Services - related party	1,914,572	2,187,408
Total net revenues	15,001,558	13,305,104
Cost of revenues:		
Salaries and consultants	5,893,349	5,161,249
Travel	711,895	481,453
Depreciation and amortization	1,330,872	1,474,235
Other	972,338	938,797
Total cost of revenues	8,908,454	8,055,734
Gross profit	6,093,104	5,249,370
Operating expenses:		
Selling and marketing	2,411,136	1,698,404
Depreciation and amortization	269,097	291,172
General and administrative	4,552,098	3,204,688
Research and development cost	92,932	112,070
Total operating expenses	7,325,263	5,306,334
Loss from operations	(1,232,159)	(56,964)
Other income and (expenses)		
Loss on sale of assets	(2,403)	(11,873)
Interest expense	(54,475)	(68,173)
Interest income	30,440	52,112
Loss on foreign currency exchange transactions	(414,896)	(113,719)
Other income	21,560	54,314
Total other income (expenses)	(419,774)	(87,339)
Net loss before income taxes	(1,651,933)	(144,303)
Income tax provision	(39,875)	(75,223)
Net loss	(1,691,808)	(219,526)

Non-controlling interest	(73,911)	(191,502)
Net loss attributable to NetSol	\$(1,765,719)	\$(411,028)

Net loss per share:

Net loss per common share

Basic	\$(0.17)	\$(0.04)
Diluted	\$(0.17)	\$(0.04)

Weighted average number of shares outstanding

Basic	10,697,425	10,281,335
Diluted	10,697,425	10,281,335

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	For the Three Months Ended September 30,	
	2016	2015
Net loss	\$(1,765,719)	\$(411,028)
Other comprehensive income (loss):		
Translation adjustment	1,094,074	(1,248,567)
Comprehensive income (loss)	(671,645)	(1,659,595)
Comprehensive income (loss) attributable to non-controlling interest	323,713	(285,367)
Comprehensive loss attributable to NetSol	\$(995,358)	\$(1,374,228)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(1,691,808)	\$(219,526)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,599,969	1,765,407
Provision for bad debts	-	36,780
Loss on sale of assets	2,403	11,873
Stock issued for services	865,456	77,750
Fair market value of warrants and stock options granted	21,804	-
Changes in operating assets and liabilities:		
Accounts receivable	2,336,894	(1,268,570)
Accounts receivable - related party	121,800	(975,266)
Revenues in excess of billing	(2,746,917)	(773,583)
Revenues in excess of billing - related party	93,208	(138,926)
Other current assets	306,339	(322,533)
Accounts payable and accrued expenses	(780,569)	(833,638)
Unearned revenue	(346,108)	(538,259)
Net cash used in operating activities	(217,529)	(3,178,491)
Cash flows from investing activities:		
Purchases of property and equipment	(554,873)	(625,794)
Sales of property and equipment	151,818	180,258
Investment	(555,555)	-
Net cash used in investing activities	(958,610)	(445,536)
Cash flows from financing activities:		
Proceeds from sale of common stock	-	64,931
Proceeds from the exercise of stock options and warrants	276,861	-
Proceeds from exercise of subsidiary options	14,013	-
Proceeds from bank loans	-	437,070
Payments on capital lease obligations and loans - net	(49,117)	(174,385)
Net cash provided by financing activities	241,757	327,616
Effect of exchange rate changes	533,292	(797,222)
Net decrease in cash and cash equivalents	(401,090)	(4,093,633)
Cash and cash equivalents, beginning of the period	11,557,527	14,168,957
Cash and cash equivalents, end of period	\$11,156,437	\$10,075,324

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

For the Three
Months
Ended September
30,
2016 2015

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for:

Interest	\$83,672	\$64,310
Taxes	\$17,351	\$71,172

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Provided services for investment in eeGeo, Inc.	\$248,658	\$-
---	-----------	-----

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The Company designs, develops, markets, and exports proprietary software products to customers in the automobile financing and leasing, banking, and financial services industries worldwide. The Company also provides system integration, consulting, and IT products and services in exchange for fees from customers.

The consolidated condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2016. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

The accompanying condensed consolidated financial statements include the accounts of NetSol Technologies, Inc. and subsidiaries (collectively, the "Company") as follows:

Wholly owned Subsidiaries

NetSol Technologies Americas, Inc. ("NTA")

NetSol Connect (Private), Ltd. (“Connect”)

NetSol Technologies Australia Pty Ltd. (“Australia”)

NetSol Technologies Europe Limited (“NTE”)

NTPK (Thailand) Co. Limited (“NTPK Thailand”)

NetSol Technologies (Beijing) Co. Ltd. (“NetSol Beijing”)

NetSol Technologies (GmbH) (“NTG”)

Majority-owned Subsidiaries

NetSol Technologies, Ltd. (“NetSol PK”)

NetSol Innovation (Private) Limited (“NetSol Innovation”)

NetSol Technologies Thailand Limited (“NetSol Thai”)

Virtual Lease Services Holdings Limited (“VLSH”)

Virtual Lease Services Limited (“VLS”)

Virtual Lease Services (Ireland) Limited (“VLSIL”)

For comparative purposes, prior year's condensed consolidated financial statements have been reclassified to conform to report classifications of the current year.

NOTE 2 – ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 those estimates.

Concentration of Credit Risk

Cash includes cash on hand and demand deposits in accounts maintained within the United States as well as in foreign countries. Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash and restricted cash. The Company maintains balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for the banks located in the United States. Balances at financial institutions within certain foreign countries are not covered by insurance. As of September 30, 2016, and June 30, 2016, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately \$8,727,470 and \$7,640,095, respectively. The Company has not experienced any losses in such accounts.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

The Company's operations are carried out globally. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments of each country and by the general state of the country's economy. The Company's operations in each foreign country are subject to specific considerations and significant risks not typically associated with companies in economically developed nations. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit". As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that there will be greater restrictions on imports and exports between the U.K. and E.U. countries and perhaps increased regulatory complexities. These changes may adversely affect the Company's operations and financial results.

New Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15). The guidance in ASU 2014-15 sets forth management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing financial statements for interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In November 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes” (ASU 2015-17), which changes how deferred taxes are classified on the balance sheet and is effective for financial statements issued for annual periods beginning after December 15, 2016, with early adoption permitted. ASU 2015-17 requires all deferred tax assets and liabilities to be classified as non-current. The adoption of this guidance is not expected to have a material impact on the Company’s results of operations, financial position or disclosures.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01), which requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in net income and updates certain presentation and disclosure requirements. ASU 2016-01 is effective beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on the Company’s results of operations, financial position or disclosures.

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which requires lessees to recognize right-of-use assets and lease liabilities, for all leases, with the exception of short-term leases, at the commencement date of each lease. This ASU requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. This ASU is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The amendments of this update should be applied using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

In March 2016, the FASB issued Accounting Standards Update 2016-07, Investments- Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting (“ASU 2016-07”). ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of this standard would have on its financial condition, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” The guidance simplifies accounting for share-based payments, most notably by requiring all excess tax benefits and tax deficiencies to be recorded as income tax benefits or expense in the income statement and by allowing entities to recognize forfeitures of awards when they occur. This new guidance is effective for annual reporting periods beginning after December 15, 2016 and may be adopted prospectively or retroactively. The Company is currently evaluating the impact the adoption of this standard would have on its financial condition, results of operations and cash flows.

In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”), which clarifies the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, which will be our interim period beginning January 1, 2018. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods with that reporting period. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-11, “Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-06 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting” (“ASU 2016-11”), which clarifies revenue and expense recognition for freight costs, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, which will be our interim period beginning January 1, 2018. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods with that reporting period. The Company is currently evaluating the impact of adopting this standard

on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), which amends the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. The amendments are intended to address implementation issues and provide additional practical expedients to reduce the cost and complexity of applying the new revenue standard. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, which will be our interim period beginning January 1, 2018. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods with that reporting period. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, regarding ASC Topic 230 “*Statement of Cash Flows*.” This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The Company does not expect the adoption of this standard to have a significant effect on its consolidated financial statements.

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****(UNAUDITED)****NOTE 3 – EARNINGS PER SHARE**

Basic earnings per share are computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, warrants, and stock awards.

The following potential dilutive shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would be anti-dilutive.

	For the Three Months Ended September 30,	
	2016	2015
Stock Options	610,133	697,133
Warrants	11,075	163,124
	621,208	860,257

NOTE 4 – OTHER COMPREHENSIVE INCOME AND FOREIGN CURRENCY:

The accounts of NTE, VLSH and VLS use the British Pound; VLSIL and NTG use the Euro; NetSol PK, Connect, and NetSol Innovation use the Pakistan Rupee; NTPK Thailand and NetSol Thai use the Thai Baht; Australia uses the Australian dollar; and NetSol Beijing uses the Chinese Yuan as the functional currencies. NetSol Technologies, Inc., and its subsidiary, NTA, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Accumulated translation losses classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet were \$17,960,133 and \$18,730,494 as of September 30,

2016 and June 30, 2016, respectively. During the three months ended September 30, 2016 and 2015, comprehensive income (loss) in the consolidated statements of operations included a translation income of \$770,361 and translation loss of \$963,200, respectively.

NOTE 5 – RELATED PARTY TRANSACTIONS

NetSol-Innovation

In November 2004, the Company entered into a joint venture agreement with Insurer (formerly *Innovation Group*) called NetSol-Innovation. NetSol-Innovation provides support services to Insurer. During the three months ended September 30, 2016 and 2015, NetSol-Innovation provided services of \$1,555,475 and \$1,897,799, respectively. Accounts receivable at September 30, 2016 and June 30, 2016 were \$5,099,633 and \$4,689,322, respectively.

Investec Asset Finance

In October 2011, NTE entered into an agreement with Investec Asset Finance to acquire VLS. NTE and VLS both provide support services to Investec. During the three months ended September 30, 2016 and 2015, NTE and VLS provided license, maintenance and services of \$736,685 and \$447,840, respectively. Accounts receivable at September 30, 2016 and June 30, 2016 were \$284,940 and \$1,001,856, respectively. Revenue in excess of billing at September 30, 2016 and June 30, 2016 were \$682,049 and \$804,168, respectively.

G-Force LLC

Najeeb Ghauri, CEO and Chairman of the Board, and Naeem Ghauri, Director, have a financial interest in G-Force LLC which purchased a 4.9% investment in eeGeo, Inc. for \$1,111,111. G-Force LLC paid \$555,556 at the initial closing and \$555,555 on September 1, 2016. See Note 8 “Other Long Term Assets”.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

NOTE 6 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of September 30, 2016	As of June 30, 2016
Prepaid Expenses	\$545,024	\$386,578
Advance Income Tax	1,091,340	968,334
Employee Advances	123,122	83,978
Security Deposits	291,691	72,985
Other Receivables	696,427	486,562
Other Assets	444,821	216,191
Total	\$3,192,425	\$2,214,628

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	As of September 30, 2016	As of June 30, 2016
Office Furniture and Equipment	\$3,426,515	\$3,346,156
Computer Equipment	26,392,430	25,935,620
Assets Under Capital Leases	2,366,860	2,409,074
Building	9,344,596	9,185,570
Land	2,453,707	2,410,664

Edgar Filing: NETSOL TECHNOLOGIES INC - Form 10-Q

Autos	1,315,522	1,073,447
Improvements	392,011	385,135
Subtotal	45,691,641	44,745,666
Accumulated Depreciation	(23,078,889)	(21,971,231)
Property and Equipment, Net	\$ 22,612,752	\$ 22,774,435

For the three months ended September 30, 2016 and 2015, depreciation expense totaled \$899,303 and \$1,063,889, respectively. Of these amounts, \$630,206 and \$772,717, respectively, are reflected in cost of revenues.

Following is a summary of fixed assets held under capital leases as of September 30, 2016 and June 30, 2016:

	As of September 30, 2016	As of June 30, 2016
Computers and Other Equipment	\$ 396,519	\$ 503,926
Furniture and Fixtures	414,326	408,200
Vehicles	1,556,015	1,496,948
Total	2,366,860	2,409,074
Less: Accumulated Depreciation - Net	(706,151)	(713,248)
	\$ 1,660,709	\$ 1,695,826

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

NOTE 8 – OTHER LONG TERM ASSETS

	As of September 30, 2016	As of June 30, 2016
Investment	(1) \$1,524,563	\$720,350
Long Term Security Deposits	80,168	122,203
Total	\$1,604,731	\$842,553

(1) Investment under cost method

On March 2, 2016, the Company purchased a 4.9% interest in eeGeo, Inc. a non-public company for \$1,111,111. The Company paid \$555,556 at the initial closing and \$555,555 on September 1, 2016. NetSol PK, the subsidiary of the Company, purchased a 12.2% investment in eeGeo, Inc., for \$2,777,778 which will be earned over future periods by providing IT and enterprise software solutions. Per the agreement, NetSol PK is to provide a minimum of \$200,000 of services in each three-month period and the entire balance is required to be provided within three years of the date of the agreement. NetSol PK may be required to forfeit the shares back to eeGeo, Inc., if NetSol PK fails to provide the future services. During three months ended September 30, 2016, NetSol PK provided services valued at \$248,658. As of September 30, 2016, accumulated balance of services provided was \$413,452 which is recorded as investment.

In connection with the investment, the Company and NetSol PK received a warrant to purchase preferred stock which included the following key terms and features:

The warrants are exercisable into share of the “Next Round Preferred”, only if and when the Next Round Preferred is issued by eeGeo, Inc., in a “Qualified Financing”.

The warrants expire on March 2, 2020.

“Next Round Preferred” is defined as occurring if eeGeo, Inc.’s preferred stock (or securities convertible into preferred stock) are issued in a Qualified Financing that occurs after March 2, 2016.

“Qualified Financing” is defined as financing with total proceeds of at least \$2 million.

The total number of common stock shares to be issued is equal to \$1,250,000 divided by the per share price of the Next Round Preferred.

The exercise price of the warrants is equal to the greater of

a) 70% of the per share price of the Next Round Preferred sold in a Qualified Financing, or

\$25,000,000 divided by the total number of shares of common stock outstanding immediately prior to the Qualified Financing (on a fully-diluted basis, excluding the number of common stock shares issuable upon the exercise of any given warrant).

The Company accounted for this investment using the cost method. At September 30, 2016, the Company has determined that there is no impairment.

NOTE 9 - INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of September 30, 2016	As of June 30, 2016
Product Licenses - Cost	\$47,244,997	\$48,632,368
Additions	-	-
Deletion	-	(1,387,371)
Effect of Translation Adjustment	(2,813,809)	(3,323,518)
Accumulated Amortization	(25,104,929)	(24,247,446)
Net Balance	\$19,326,259	\$19,674,033

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

(A) Product Licenses

Product licenses include internally developed original license issues, renewals, enhancements, copyrights, trademarks, and trade names. Product licenses are amortized on a straight-line basis over their respective lives, and the unamortized amount of \$19,326,259 will be amortized over the next 7.5 years. Amortization expense for the three months ended September 30, 2016 and 2015 was \$700,666 and \$701,518, respectively.

(B) Future Amortization

Estimated amortization expense of intangible assets over the next five years is as follows:

Year ended:

September 30, 2017	\$2,807,280
September 30, 2018	2,807,280
September 30, 2019	2,807,280
September 30, 2020	2,807,280
September 30, 2021	2,807,280
Thereafter	5,289,859
	\$ 19,326,259

NOTE 10 – GOODWILL

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in businesses combinations. Goodwill was comprised of the following amounts:

	As of September 30, 2016	As of June 30, 2016
NetSol PK	\$1,166,610	\$1,166,610
NTE	3,471,814	3,471,814
VLS	214,044	214,044
NTA	4,664,100	4,664,100
Total	\$9,516,568	\$9,516,568

The Company tests for goodwill impairment at each reporting unit. There was no goodwill impairment for the period ended September 30, 2016.

NOTE 11 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of September 30, 2016	As of June 30, 2016
Accounts Payable	\$1,327,620	\$1,346,532
Accrued Liabilities	4,600,132	4,171,058
Accrued Payroll & Taxes	264,395	231,881
Taxes Payable	83,945	66,437
Other Payable	113,036	146,862
Total	\$6,389,128	\$5,962,770

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****(UNAUDITED)****NOTE 12 – DEBTS**

Notes payable and capital leases consisted of the following:

Name	As of September 30, 2016		
	Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1) \$21,376	\$21,376	\$ -
HSBC Loan	(2) 19,253	19,253	-
Loan Payable Bank	(3) 3,860,631	3,860,631	-
	3,901,260	3,901,260	-
Subsidiary Capital Leases	(4) 1,046,772	506,913	539,859
	\$4,948,032	\$4,408,173	\$ 539,859

Name	As of June 30, 2016		
	Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1) \$65,114	\$65,114	\$ -
HSBC Loan	(2) 93,704	93,704	-
Loan Payable Bank	(3) 3,792,907	3,792,907	-
	3,951,725	3,951,725	-
Subsidiary Capital Leases	(4) 966,051	488,359	477,692
	\$4,917,776	\$4,440,084	\$ 477,692

(1) The Company finances Directors' and Officers' ("D&O") liability insurance as well as Errors and Omissions ("E&O") liability insurance, for which the total balances are renewed on an annual basis and as such are recorded in current maturities. The interest rate on the insurance financing was 0.49% as of September 30, 2016 and June 30, 2016, respectively.

(2) In October 2011, the Company's subsidiary, NTE, entered into a loan agreement with HSBC Bank to finance the acquisition of a 51% controlling interest in Virtual Leasing Services Limited. HSBC Bank guaranteed the loan up to a limit of £1,000,000, or approximately \$1,282,051 for a period of 5 years with monthly payments of £18,420, or approximately \$23,615. The interest rate was 4% which is 3.5% above the bank sterling base rate. The loan is securitized against a debenture comprising of fixed and floating charges over all the assets and undertakings of NTE including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future. Interest expense for the three months ended September 30, 2016 and 2015 was \$1,558 and \$7,850, respectively.

This facility requires that NTE's adjusted tangible net worth would not be less than £600,000. For this purpose, adjusted tangible net worth means shareholders' funds less intangible assets plus non-redeemable preference shares. In addition, NTE's cash debt service coverage would not fall below 150% of the aggregate debt service cost. As of September 30, 2016, NTE was in compliance with this covenant.

(3) The Company's subsidiary, NetSol PK, has an export refinance facility with Askari Bank Limited, secured by NetSol PK's assets. This is a revolving loan that matures every six months. Total facility amount is Rs. 400,000,000 or approximately \$3,860,631. The interest rate for the loans was 4.5% and 4.5% at September 30, 2016 and June 30, 2016, respectively. Interest expense for the three months ended September 30, 2016 and 2015 was \$29,065 and \$41,006, respectively.

This facility requires NetSol PK to maintain a long term debt equity ratio of 60:40 and the current ratio of 1:1. As of September 30, 2016, NetSol PK was in compliance with this covenant.

(4) The Company leases various fixed assets under capital lease arrangements expiring in various years through 2019. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are secured by the assets themselves. Depreciation of assets under capital leases is included in depreciation expense for the three months ended September 30, 2016 and 2015.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

Following is the aggregate minimum future lease payments under capital leases as of September 30, 2016:

	Amount
Minimum Lease Payments	
Due FYE 9/30/17	\$568,028
Due FYE 9/30/18	365,013
Due FYE 9/30/19	215,066
Total Minimum Lease Payments	1,148,107
Interest Expense relating to future periods	(101,335)
Present Value of minimum lease payments	1,046,772
Less: Current portion	(506,913)
Non-Current portion	\$539,859

NOTE 13 - STOCKHOLDERS' EQUITY

During the three months ended September 30, 2016, the Company issued 59,390 shares of common stock for services rendered by officers of the Company. These shares were valued at the fair market value of \$356,773.

During the three months ended September 30, 2016, the Company issued 11,250 shares of common stock for services rendered by the independent members of the Board of Directors as part of their board compensation. These shares were valued at the fair market value of \$57,264.

During the three months ended September 30, 2016, the Company issued 77,954 shares of its common stock to employees pursuant to the terms of their employment agreements valued at \$451,419.

During the three months ended September 30, 2016, the Company collected subscription receivable of \$180,361 related to the exercise of stock options in previous years.

During the three months ended September 30, 2016, the Company received \$96,500 pursuant to a stock option agreement for the exercise of 20,315 shares of common stock at price \$4.75 per share.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

NOTE 14 - INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

Common stock purchase options and warrants consisted of the following:

OPTIONS:

	# of shares	Weighted Ave Exercise	Weighted Average Remaining Contractual Life (in years)	Aggregated Intrinsic Value
Outstanding and exercisable, June 30, 2016	610,133	\$ 4.90	0.99	\$799,030
Granted	20,315	\$ 4.75		
Exercised	(20,315)	\$ 4.75		
Expired / Cancelled	-			
Outstanding and exercisable, September 30, 2016	610,133	\$ 4.90	0.74	\$1,013,097

WARRANTS:

Outstanding and exercisable, June 30, 2016	163,124	\$7.29	0.23	\$9,303
Granted / adjusted	-	-		
Exercised	-	-		
Expired	(152,049)	\$7.46		
Outstanding and exercisable, September 30, 2016	11,075	\$5.00	0.43	\$13,955

The following table summarizes information about stock options and warrants outstanding and exercisable at September 30, 2016.

Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Ave Exercise Price
OPTIONS:			
\$0.10 - \$9.90	609,133	0.74	\$ 4.88
\$10.00 - \$19.90	1,000	0.80	\$ 16.00
Totals	610,133	0.74	\$ 4.90
WARRANTS:			
\$5.00 - \$7.50	11,075	0.43	\$ 5.00
Totals	11,075	0.43	\$ 5.00

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****(UNAUDITED)**

The following table summarizes stock grants awarded as compensation:

	# of shares	Weighted Average Grant Date Fair Value (\$)
Unvested, June 30, 2015	6,667	\$ 6.00
Granted	864,500	\$ 5.91
Vested	(240,939)	\$ 5.51
Unvested, June 30, 2016	630,228	\$ 6.07
Granted	229,646	\$ 5.92
Canceled	(1,000)	\$ 5.09
Vested	(148,594)	\$ 5.82
Unvested, September 30, 2016	710,280	\$ 6.07

For the three months ended September 30, 2016 and 2015, the Company recorded compensation expense of \$865,456 and \$77,750 respectively. The compensation expense related to the unvested stock grants as of September 30, 2016 was \$4,311,540 which will be recognized during the fiscal years 2017 through 2021.

OPTIONS

During the three months ended September 30, 2016, the Company granted 20,315 options to employees with exercise prices of \$4.75 per share and expiration date of 3 months, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded \$21,804 in compensation expense for these options in the accompanying condensed consolidated financial statements. The fair market value was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate - 0.01%

Expected life – 3 months

Expected volatility – 19.27%

Expected dividend - 0%

NOTE 15 – CONTINGENCIES

As previously disclosed, on July 25, 2014, purported class action lawsuits were filed in the U.S. District Court for the Central District of California against the Company and certain of its current or former officers and/or directors, which have been consolidated under the caption *Rand-Heart of New York, Inc. v. NetSol Technologies, Inc., et al.*, Case No. 2:14-cv-05787 PA (SHx). Plaintiffs subsequently filed consolidated amended complaints, which asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. As a result of the Company's motions, the Court dismissed all of plaintiffs' claims except those related to the scope of the Company's release of its next generation product, NFS Ascent™, during the narrow proposed class period of October 24, 2013 to November 8, 2013. The Company filed an answer and affirmative defenses denying the remaining claims. On February 26, 2016, the parties executed a Stipulation of Settlement to fully resolve the consolidated class action lawsuit, and filed a motion seeking the Federal Court's approval of the settlement. On March 28, 2016, the Court issued an order preliminarily approving the settlement and providing for notice to class members. Following class notice and hearing, the Court issued an order granting the motion for final approval of the settlement and plan of allocation and motion for an award of attorneys' fees and case expenses on July 1, 2016. The Court's Judgment approving the settlement on the terms set forth in the Stipulation of Settlement was signed on July 2, 2016. The cost of the settlement was covered by the Company's insurers.

On October 27, 2015, a shareholder derivative lawsuit was filed in the California state court entitled *McArthur v Ghauri, et al.*, Case No. BC599020 (Los Angeles, Cty.), naming current and former members of the Company's board of directors as defendants. The complaint alleges that the defendants breached their fiduciary duties based on the same alleged factual premise as the pending federal securities class action described above. The Company is named as a nominal defendant only and no damages are sought from it. On March 16, 2016, the parties in the California lawsuit reached an agreement-in-principle providing for the settlement of that case. The proposed settlement is on the terms and conditions set forth in a Memorandum of Understanding ("MOU").

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(UNAUDITED)

On December 30, 2015, a virtually identical shareholder derivative lawsuit was filed in Nevada state court, *Paulovits v. Ghauri, et al.*, Case No. CV15-02470 (Washoe Cty.). The Nevada complaint names the same defendants and is based on the same alleged facts as the earlier-filed California case. On April 29, 2016, the Company filed a motion to dismiss or stay the Nevada proceeding on multiple grounds, including that it is duplicative of the first-filed California action. On May 23, 2016, pursuant to the parties' stipulation, the Nevada court ordered that matter to be stayed for a period of one year.

On June 15, 2016, the parties in the California and the Nevada cases jointly executed a Stipulation and Agreement of Settlement of Derivative Claims, which is intended to fully resolve both cases. Pursuant to the stipulation and subject to the court's approval, the Company has agreed to adopt or maintain certain corporate governance measures, and has agreed to cause its insurers to pay plaintiff counsel's fees and expenses in an aggregate amount not to exceed \$175,000. On June 16, 2016, the California plaintiff filed a motion for preliminary approval of the derivative settlement. The motion for approval of the settlement was continued by the California court until December 14, 2016.

NOTE 16 – OPERATING SEGMENTS

The Company has identified three segments for its products and services; North America, Europe and Asia-Pacific. Our reportable segments are business units located in different global regions. Each business unit provides similar products and services; license fees for leasing and asset-based software, related maintenance fees, and implementation and IT consulting services. Separate management of each segment is required because each business unit is subject to different operational issues and strategies due to their particular regional location. The Company accounts for intra-company sales and expenses as if the sales or expenses were to third parties and eliminates them in the consolidation.

The following table presents a summary of identifiable assets as of September 30, 2016 and June 30, 2016:

As of	As of
-------	-------

Edgar Filing: NETSOL TECHNOLOGIES INC - Form 10-Q

	September 30, 2016	June 30, 2016
Identifiable assets:		
Corporate headquarters	\$3,288,674	\$3,646,160
North America	6,994,289	6,845,444
Europe	7,119,525	7,857,427
Asia - Pacific	76,664,419	75,000,384
Consolidated	\$94,066,907	\$93,349,415

Page 19

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****(UNAUDITED)**

The following table presents a summary of operating information for the three months ended September 30:

	For the Three Months Ended September 30,	
	2016	2015
Revenues from unaffiliated customers:		
North America	\$1,841,431	\$1,502,468
Europe	1,206,049	1,498,531
Asia - Pacific	9,661,918	7,958,466
	12,709,398	10,959,465
Revenue from affiliated customers		
Europe	736,685	447,840
Asia - Pacific	1,555,475	1,897,799
	2,292,160	2,345,639
Consolidated	\$15,001,558	\$13,305,104
Intercompany revenue		
Europe	\$136,127	\$136,786
Asia - Pacific	459,951	944,189
Eliminated	\$596,078	\$1,080,975

Net income (loss) after taxes and before non-controlling interest:

Corporate headquarters	\$(1,562,419)	\$(713,650)
North America	267,892	376,714
Europe	(100,288)	(194,581)
Asia - Pacific	(296,993)	311,991
Consolidated	\$(1,691,808)	\$(219,526)

The following table presents a summary of capital expenditures for the three months ended September 30:

For the Three
Months
Ended September
30,
2016 2015

Capital expenditures:

Corporate headquarters	\$-	\$-
North America	4,103	22,677
Europe	195,180	43,819
Asia - Pacific	355,590	559,298
Consolidated	\$554,873	\$625,794

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****(UNAUDITED)****NOTE 17 – NON-CONTROLLING INTEREST IN SUBSIDIARY**

The Company had non-controlling interests in several of its subsidiaries. The balance of non-controlling interest was as follows:

SUBSIDIARY	Non-Controlling Interest %	Non-Controlling Interest at September 30, 2016
NetSol PK	33.51	% \$ 10,534,992
NetSol-Innovation	49.90	% 2,981,320
VLS, VLSH & VLSIL Combined	49.00	% 296,818
NetSol Thai	0.006	% (5)
Total		\$ 13,813,125

SUBSIDIARY	Non-Controlling Interest %	Non-Controlling Interest at June 30, 2016
NetSol PK	33.40	% \$ 10,292,495
NetSol-Innovation	49.90	% 2,735,998
VLS, VLHS & VLSIL Combined	49.00	% 309,213
NetSol Thai	0.006	% (4)
Total		\$ 13,337,702

NETSOL TECHNOLOGIES, LIMITED

During the three months ended September 30, 2016, employees of NetSol PK exercised 90,000 options of common stock pursuant to employees exercising stock options and NetSol PK received cash of \$14,013, resulting in an increase

in non-controlling interest from 33.40% to 33.51%.

Item 2. Management's Discussion and Analysis of Plan of Operation

The following discussion is intended to assist in an understanding of the Company's financial position and results of operations for the three months ended September 30, 2016. The following discussion should be read in conjunction with the information included within our Annual Report on Form 10-K for the year ended June 30, 2016, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Information

This report contains certain forward-looking statements and information relating to the Company that is based on the beliefs of its management as well as assumptions made by and information currently available to its management. When used in this report, the words "anticipate", "believe", "estimate", "expect", "intend", "plan", and similar expressions as they relate to the Company or its management, are intended to identify forward-looking statements. These statements reflect management's current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this report as anticipated, estimated or expected. The Company's realization of its business aims could be materially and adversely affected by any technical or other problems in, or difficulties with, planned funding and technologies, third party technologies which render the Company's technologies obsolete, the unavailability of required third party technology licenses on commercially reasonable terms, the loss of key research and development personnel, the inability or failure to recruit and retain qualified research and development personnel, or the adoption of technology standards which are different from technologies around which the Company's business ultimately is built. The Company does not intend to update these forward-looking statements.

Business Overview

NetSol Technologies, Inc. (NasdaqCM: NTWK) is a worldwide provider of IT and enterprise software solutions. We believe that our solutions constitute mission critical applications for our clients as they encapsulate end-to-end business processes, facilitating faster processing and increased transactions.

The Company's primary source of revenue is the licensing, customization, enhancement and maintenance of its suite of financial applications under the brand name NFSTM (NetSol Financial Suite) and NFS AscentTM for leading businesses in the global lease and finance industry.

NetSol's clients include Dow-Jones 30 Industrials and Fortune 500 manufacturers and financial institutions, global vehicle manufacturers, and enterprise technology providers, all of which are serviced by NetSol delivery locations around the globe.

Founded in 1997, NetSol is headquartered in Calabasas, California. While the Company follows a global strategy for sales and delivery of its portfolio of solutions and services, it continues to maintain regional offices in the following locations:

North America San Francisco Bay Area

Europe London Metropolitan area

Asia Pacific Lahore, Karachi, Bangkok, Beijing, Jakarta and Sydney

The Company maintains services, solutions and/or sales specific offices in the USA, England, Germany, Pakistan, Thailand, China and Australia.

NetSol's offerings include its flagship global solution, NFS™. A robust suite of five software applications, it is an end-to-end solution for the lease and finance industry covering the complete leasing and financing cycle, starting from quotation origination through end of contract transactions. The five software applications under NFS™ have been designed and developed for a highly flexible setting and are capable of dealing with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments. Each application is a complete system in itself and can be used independently to address specific sub-domains of the leasing/financing cycle. When used together, they fully automate the entire leasing/financing cycle for any size company, including those with multi-billion dollar portfolios.

NFS Ascent™

NFS Ascent™ is the Company's next-generation platform, offering a technologically advanced solution for the auto and equipment finance and leasing industry. NFS Ascent's™ architecture and user interfaces were designed based on the Company's collective experience with global Fortune 500 companies over the past 30 years. The platform's framework allows auto captive and asset finance companies to rapidly transform legacy driven technology into a state-of-the-art IT and business process environment. At the core of the NFS Ascent™ platform is a lease accounting and contract processing engine, which allows for an array of interest calculation methods, as well as robust accounting of multi-billion dollar lease portfolios under various generally accepted accounting principles (GAAP), as well as international financial reporting standards (IFRS). NFS Ascent™, with its distributed and clustered deployment across parallel application and high volume data servers, enables finance companies to process voluminous data in a hyper speed environment. NFS Ascent™ has been developed using the latest tools and technologies and its n-tier SOA architecture allows the system to greatly improve a myriad of areas including, but not limited to, scalability, performance, fault tolerance and security.

NFS Mobility

NetSol launched NFS mobility in 2014. It enables a sales force for the finance and leasing company across different channels like point of sale, field investigation and auditing as well as allowing end customers to access their contract details through a self-service mobile application. NFS Mobility includes mAccount, mPOS, mDealer, mAuditor, and Mobile Field Investigator (mFI).

LeasePak

In North America, NTA has and continues to develop the LeasePak Productivity modules as an additional companion set of products to operate in conjunction with the LeasePak base system licensed software. LeasePak streamlines the lease management lifecycle, while maintaining customer service and reducing operating costs. It is web-enabled and can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. It is scalable from a basic offering to a collection of highly specialized add on modules for systems, portfolios and accrual methods for virtually all sizes and varying complexity of operations. It is part of the vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors. It handles every aspect of the lease or loan lifecycle, including credit application origination, credit adjudication, pricing, documentation, booking, payments, customer service, collections, midterm adjustments, and end-of-term options and asset disposition. It is also integrated with Vertex Series O.

The LeasePak solution includes the LeasePak Software-as-a-Service (“SaaS”) business line, which provides an enhanced performance, while reducing the overall cost of ownership. SaaS offers a new deployment option whereby customers only require access to the internet and web browser to use the software. LeasePak-SaaS targets small and mid-sized leasing and finance companies.

NTA has updated the LeasePak’s technology set to .Net. The most recent upgrade includes faster performance, new features, improved security, and compatibility with the latest hardware. LeasePak.Net takes full advantage of the existing business functionality of LeasePak.

LeaseSoft

In addition to offering NFS Ascent™ to the European market, NTE has some regional offerings, including LeaseSoft and LoanSoft. LeaseSoft is a full lifecycle lease and finance system aimed predominantly at the UK funder market, including modules to support web portals and an electronic data interchange manager to facilitate integration between funders and introducers. LoanSoft is similar to LeaseSoft, but optimized for the consumer loan market.

The following discussion is intended to assist in an understanding of NetSol’s financial position and results of operations for the three months ended September 30, 2016. It should be read together with our condensed consolidated financial statements and related notes included herein.

Highlights

Listed below are a few of NetSol's major successes achieved in the three months ended September 30, 2016:

The first implementation of our contract with a long-standing customer to upgrade to NFS Ascent™ in 11 countries and implement NFS Ascent™ in one new country was recently completed in New Zealand. The first implementation phase continues in Australia, Korea and China.

Implementation of the NFS Ascent™ contract with UK-based client valued at approximately \$8 million is progressing as planned

Sold LeasePak license valued at \$500,000 to Korean based automotive captive for their U.S. operations.

NetSol PK signed a collaboration agreement to provide technology services to eeGeo, an interactive 3D mapping company based in the United Kingdom. The eeGeo platform enables businesses to easily visualize complex data sets and location-based services in a 3D mobile experience. This agreement is progressing well as per joint agreements with NetSol and eeGeo.

Went live with a major implementation of our NFS legacy system with Tri Petch Isuzu Leasing in Thailand.

Our success, in the near term, will depend, in large part, on the Company's ability to continue to grow revenues and improve profits, adequately capitalize for growth in various markets and verticals, make progress in the North American and European markets and, continue to streamline sales and marketing efforts in every market we operate. However, management's outlook for the continuing operations, which has been consolidated and has been streamlined, remains optimistic.

Management has identified the following material trends affecting NetSol.

Positive trends:

Improving U.S. economy generally, and particularly in the auto and banking markets.

China to invest \$46 billion in Pakistan on energy and infrastructure projects.

According to the Wall Street Journal article on August 12, 2016, the Chinese Auto market experienced double digit growth of 26% in July 2016 versus July 2015.

NFS legacy Solutions and Ascent's largest auto finance market remains robust and resilient in China.

According to Reuters, US auto manufactures hit a record 17.5 million units of new car sales in 2015, the highest in a decade.

Slowly improving economic environment in the U.K. and major European economies.

New emerging markets and IT destinations in Thailand, Malaysia, Indonesia, China and Australia.

According to Deloitte's 2015 China Auto Finance Report, China's auto finance penetration rate will reach 50% by 2020.

According to a KPMG report, global car sales are rising and forecast to exceed 91 million by 2017.

Continued interest from multinational auto captives, global companies and existing clients in NetSol Ascent™.

Higher caliber and quality talents joining NetSol, globally including those strategic senior management hiring in the US, China and Pakistan.

Improved economic and geo political indicators in Pakistan to restore business confidence.

Negative trends:

The disruption risk of geopolitical unrest in the Middle East and the global threat of terrorist attacks.

Restricted liquidity and financial burden due to tighter internal processes and limited budgets might cause delays in the receivables from some clients.

The threats of conflict between the U.S. and Middle East region could potentially create volatility in oil prices, causing readjustments of corporate budgets and consumer spending slowing global auto sales.

Currency fluctuation due to the concerns regarding the United Kingdom's proposed exit from the European Union.

CHANGES IN FINANCIAL CONDITION

Quarter Ended September 30, 2016 compared to the Quarter Ended September 30, 2015

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the quarter ended September 30, 2016 and 2015 as a percentage of revenues.

	For the Three Months Ended September 30,				
	2016	%	2015	%	
Net Revenues:					
License fees	\$3,499,860	23.33 %	\$1,193,354	8.97 %	
Maintenance fees	3,402,821	22.68 %	3,012,238	22.64 %	
Services	5,806,717	38.71 %	6,753,873	50.76 %	
License fees - related party	246,957	1.65 %	-	0.00 %	
Maintenance fees - related party	130,631	0.87 %	158,231	1.19 %	
Services - related party	1,914,572	12.76 %	2,187,408	16.44 %	
Total net revenues	15,001,558	100.00 %	13,305,104	100.00 %	
Cost of revenues:					
Salaries and consultants	5,893,349	39.28 %	5,161,249	38.79 %	
Travel	711,895	4.75 %	481,453	3.62 %	
Depreciation and amortization	1,330,872	8.87 %	1,474,235	11.08 %	
Other	972,338	6.48 %	938,797	7.06 %	
Total cost of revenues	8,908,454	59.38 %	8,055,734	60.55 %	
Gross profit	6,093,104	40.62 %	5,249,370	39.45 %	
Operating expenses:					
Selling and marketing	2,411,136	16.07 %	1,698,404	12.77 %	
Depreciation and amortization	269,097	1.79 %	291,172	2.19 %	
General and administrative	4,552,098	30.34 %	3,204,688	24.09 %	
Research and development cost	92,932	0.62 %	112,070	0.84 %	
Total operating expenses	7,325,263	48.83 %	5,306,334	39.88 %	
Loss from operations	(1,232,159)	-8.21 %	(56,964)	-0.43 %	
Other income and (expenses)					
Loss on sale of assets	(2,403)	-0.02 %	(11,873)	-0.09 %	
Interest expense	(54,475)	-0.36 %	(68,173)	-0.51 %	
Interest income	30,440	0.20 %	52,112	0.39 %	
Gain (loss) on foreign currency exchange transactions	(414,896)	-2.77 %	(113,719)	-0.85 %	
Other income	21,560	0.14 %	54,314	0.41 %	
Total other income (expenses)	(419,774)	-2.80 %	(87,339)	-0.66 %	
Net loss before income taxes	(1,651,933)	-11.01 %	(144,303)	-1.08 %	
Income tax provision	(39,875)	-0.27 %	(75,223)	-0.57 %	
Net loss	(1,691,808)	-11.28 %	(219,526)	-1.65 %	
Non-controlling interest	(73,911)	-0.49 %	(191,502)	-1.44 %	
Net loss attributable to NetSol	\$(1,765,719)	-11.77 %	\$(411,028)	-3.09 %	

A significant portion of our business is conducted in currencies other than the U.S. dollar. We operate in several geographical regions as described in Note 16 “Operating Segments” within the Notes to the Consolidated Financial Statements. Weakening of the value of the U.S. dollar compared to foreign currency exchange rates generally has the effect of increasing our revenues but also increasing our expenses denominated in currencies other than the U.S. dollar. Similarly, strengthening of the U.S. dollar compared to foreign currency exchange rates generally has the effect of reducing our revenues but also reducing our expenses denominated in currencies other than the U.S. dollar. We plan our business accordingly by deploying additional resources to areas of expansion, while continuing to monitor our overall expenditures given the economic uncertainties of our target markets. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the changes in results from one period to another period using constant currency. In order to calculate our constant currency results, we apply the current period results to the prior period foreign currency exchange rates. In the table below, we present the change based on actual results in reported currency and in constant currency.

	For the Three Months Ended September 30,		Favorable (Unfavorable) Change in Constant Currency	Favorable (Unfavorable) Change due to Currency Fluctuation	Total Favorable (Unfavorable) Change as Reported
	2016	2015			
Net Revenues:	15,001,558	13,305,104	2,065,556	(369,102)	1,696,454
Cost of revenues:	8,908,454	8,055,734	(1,011,869)	159,149	(852,720)
Gross profit	6,093,104	5,249,370	1,053,687	(209,953)	843,734
Operating expenses:	7,325,263	5,306,334	(2,236,886)	217,957	(2,018,929)
Loss from operations	(1,232,159)	(56,964)	(1,183,199)	8,004	(1,175,195)

Net revenues for the quarter ended September 30, 2016 and 2015 are broken out among the segments as follows:

	2016			2015	
	Revenue	%		Revenue	%
North America	1,841,431	12.27 %	%	1,502,468	11.29 %
Europe	1,942,734	12.95 %	%	1,946,371	14.63 %
Asia-Pacific	11,217,393	74.77 %	%	9,856,265	74.08 %
Total	\$15,001,558	100.00 %	%	\$13,305,104	100.00 %

Revenues

License fees

License fees for the three months ended September 30, 2016 were \$3,746,817 compared to \$1,193,354 for the three months ended September 30, 2015 reflecting an increase of \$2,553,463 with a change in constant currency of \$2,610,254. Included in the license fees are licenses provided to related parties of \$246,957 for the three months ended September 30, 2016 compared to \$nil for the same period last year. During the three months ended September 30, 2016, we increased our license revenues through sales of our regional offerings in the U.S. and sales of our NFS Ascent™ product.

Maintenance fees

Maintenance fees for the three months ended September 30, 2016 were \$3,533,452 compared to \$3,170,469 for the three months ended September 30, 2015 reflecting an increase of \$362,983 with a change in constant currency of \$461,994. Included in the maintenance fees are maintenance provided to related parties of \$130,631 for the three months ended September 30, 2016 compared to \$158,231 for the same period last year. Maintenance fees begin once a customer has “gone live” with our product. The increase was due to the start of new maintenance agreements from customers who went live with our product during the latter stages of fiscal year 2016 and into fiscal year 2017. We anticipate maintenance fees to gradually increase as we implement both our NFS legacy product and NFS Ascent™.

Services

Services income for the three months ended September 30, 2016 was \$7,721,289 compared to \$8,941,281 for the three months ended September 30, 2015 reflecting a decrease of \$1,219,992 with a change in constant currency of \$1,006,692. Included in the services revenue are services provided to related parties of \$1,914,572 for the three months ended September 30, 2016 compared to \$2,187,408 for the same period last year. The decrease is due to a decrease in consulting services with current customers and a reduction in implementation services. Services revenue is derived from services provided to both current customers as well as services provided to new customers as part of the implementation process.

Gross Profit

The gross profit was \$6,093,104, for the three months ended September 30, 2016 as compared with \$5,249,370 for the three months ended September 30, 2015. This is an increase of \$843,734 with an increase in constant currency of \$1,053,687. The gross profit percentage for the three months ended September 30, 2016 also increased to 40.62% from 39.45% for the three months ended September 30, 2015. The cost of sales was \$8,908,454 for the three months ended September 30, 2016 compared to \$8,055,734 for the three months ended September 30, 2015 for an increase of \$852,720 and on a constant currency basis an increase of \$1,011,869. As a percentage of sales, cost of sales decreased from 60.55% for the three months ended September 30, 2015 to 59.38% for the three months ended September 30, 2016.

Salaries and consultant fees increased by \$732,100 from \$5,161,249 for the three months ended September 30, 2015 to \$5,893,349 for the three months ended September 30, 2016 and on a constant currency basis increased \$849,061. The increase in salaries and consultant fees is due annual salary increases and the strategic hiring of employees at key locations including Pakistan, Thailand, China, UK and North America as we anticipate new projects associated with NFS Ascent™.

Depreciation and amortization expense decreased to \$1,330,872 compared to \$1,474,235 for the three months ended September 30, 2015 or a decrease of \$143,363 and on a constant currency basis a decrease of \$141,520. Depreciation and amortization expense decreased as some products became fully amortized.

Operating Expenses

Operating expenses were \$7,325,263 for the three months ended September 30, 2016 compared to \$5,306,334, for the three months ended September 30, 2015 for an increase of 38.05% or \$2,018,929 and on a constant currency basis an increase of 42.16% or \$2,236,886. As a percentage of sales, it increased from 39.88% to 45.38%. The increase in operating expenses was primarily due to the increase in selling and marketing expenses of \$712,732 or 41.96% and on a constant currency basis an increase of \$821,669 or 48.38%, and an increase in general and administrative expenses of \$1,347,410 or 42.04% and on a constant currency basis an increase of \$1,448,483 or 45.2%.

The increase in selling and marketing expenses is due to the increase in our salaries and commissions, travel expenses, and business development costs to market and sell NFS Ascent™ globally.

General and administrative expenses were \$4,552,098 for the three months ended September 30, 2016 compared to \$3,204,688 at September 30, 2015 or an increase of \$1,347,410 or 42.04% and on a constant currency basis an increase of \$1,448,483 or 45.2%. During the three months ended September 30, 2016, salaries increased by approximately \$763,303 or \$827,836 on a constant currency basis due to the increase in the number of employees, annual raises, share grants, cash bonuses and options; other general and administrative expenses increased by approximately \$541,491 or \$565,594 on a constant currency basis; professional services increased by approximately \$79,396 or \$91,833 on a constant currency basis.

Loss from Operations

Loss from operations was \$1,232,159 for the three months ended September 30, 2016 compared to \$56,964 for the three months ended September 30, 2015. This represents an increase in loss of \$1,175,195 with an increase in loss of \$1,183,199 on a constant currency basis for the three months ended September 30, 2016 compared with the three months ended September 30, 2015. As a percentage of sales, net loss from operations was 8.21% for the three months ended September 30, 2016 compared to loss of 0.43% for the three months ended September 30, 2015.

Net Loss

Net loss was \$1,765,719 for the three months ended September 30, 2016 compared to a loss of \$411,028 for the three months ended September 30, 2015. This is an increase in loss of \$1,354,691 compared to the prior year. For the three months ended September 30, 2016 and 2015, net loss per basic and diluted share was \$0.17 and \$0.04, respectively.

Non-GAAP Financial Measures

Regulation S-K Item 10(e), "Use of Non-GAAP Financial Measures in Commission Filings," defines and prescribes the conditions for use of non-GAAP financial information. Our measures of adjusted EBITDA and adjusted EBITDA per basic and diluted share meet the definition of a non-GAAP financial measure.

We define the non-GAAP measures as follows:

EBITDA is GAAP net income before net interest expense, income tax expense, depreciation and amortization.

Non-GAAP adjusted EBITDA is EBITDA less stock-based compensation expense.

Adjusted EBITDA per basic and diluted share – Adjusted EBITDA allocated to common stock divided by the weighted average shares outstanding and diluted shares outstanding.

We use non-GAAP measures internally to evaluate the business and believe that presenting non-GAAP measures provides useful information to investors regarding the underlying business trends and performance of our ongoing operations as well as useful metrics for monitoring our performance and evaluating it against industry peers. The non-GAAP financial measures presented should be used in addition to, and in conjunction with, results presented in

accordance with GAAP, and should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review our consolidated financial statements in their entirety and not to rely on any single financial measure in evaluating the Company.

The non-GAAP measures reflect adjustments based on the following items:

EBITDA: We report EBITDA as a non-GAAP metric by excluding the effect of net interest expense, income tax expense, depreciation and amortization from net income because doing so makes internal comparisons to our historical operating results more consistent. In addition, we believe providing an EBITDA calculation is a more useful comparison of our operating results to the operating results of our peers.

Stock-based compensation expense: We have excluded the effect of stock-based compensation expense from the non-GAAP adjusted EBITDA and non-GAAP adjusted EBITDA per basic and diluted share calculations. Although stock-based compensation expense is calculated in accordance with current GAAP and constitutes an ongoing and recurring expense, such expense is excluded from non-GAAP results because it is not an expense which generally requires cash settlement by NetSol, and therefore is not used by us to assess the profitability of our operations. We also believe the exclusion of stock-based compensation expense provides a more useful comparison of our operating results to the operating results of our peers.

Non-controlling interest: We add back the non-controlling interest in calculating gross adjusted EBITDA and then subtract out the income taxes, depreciation and amortization and net interest expense attributable to the non-controlling interest to arrive at a net adjusted EBITDA.

Our reconciliation of the non-GAAP financial measures of adjusted EBITDA and non-GAAP earnings per basic and diluted share to the most comparable GAAP measures for the three months ended September 30, 2016 and 2015 are as follows:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Net loss before preferred dividend, per GAAP	\$(1,765,719)	\$(411,028)
Non-controlling interest	73,911	191,502
Income taxes	39,875	75,223
Depreciation and amortization	1,599,969	1,765,407
Interest expense	54,475	68,173
Interest (income)	(30,440)	(52,112)
EBITDA	\$(27,929)	\$1,637,165
Add back:		
Non-cash stock-based compensation	887,260	77,750
Adjusted EBITDA, gross	\$859,331	\$1,714,915
Less non-controlling interest (a)	(679,817)	(1,055,531)
Adjusted EBITDA, net	\$179,514	\$659,384
Weighted Average number of shares outstanding		
Basic	10,697,425	10,281,335
Diluted	10,861,290	10,392,669
Basic adjusted EBITDA	\$0.02	\$0.06
Diluted adjusted EBITDA	\$0.02	\$0.06

(a)The reconciliation of adjusted EBITDA of non-controlling interest to net income attributable to non-controlling interest is as follows

Net Income attributable to non-controlling interest	\$73,911	\$191,502
Income Taxes	7,648	13,874
Depreciation and amortization	525,926	825,866
Interest expense	17,691	18,342
Interest (income)	(9,557)	(16,450)
EBITDA	\$615,619	\$1,033,134
Add back:		
Non-cash stock-based compensation	64,198	22,397
Adjusted EBITDA of non-controlling interest	\$679,817	\$1,055,531

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was \$11,156,437 at September 30, 2016, compared to \$11,557,527 at June 30, 2016.

Net cash used in operating activities was \$217,529 for the three months ended September 30, 2016 compared to \$3,178,491 for the three months ended September 30, 2015. At September 30, 2016, we had current assets of \$40,916,597 and current liabilities of \$15,305,317. We had accounts receivable of \$12,526,828 at September 30, 2016 compared to \$15,382,407 at June 30, 2016. We had revenues in excess of billings of \$14,040,907 at September 30, 2016 compared to \$11,297,264 at June 30, 2016. During the three months ended September 30, 2016, our revenues in excess of billings were reclassified to accounts receivable pursuant to billing requirements detailed in each contract. The combined totals for accounts receivable and revenues in excess of billings decreased by \$111,936, from \$26,679,671 at June 30, 2016, to \$26,567,735 at September 30, 2016. The increase in accounts receivable is due to invoicing for services and maintenance fees to various customers. To some customers, the maintenance fee is invoiced in advance for the year. The amount is recorded in unearned revenue and is recognized as revenue on the time proportionate method. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to \$6,389,128 and \$4,408,173, respectively at September 30, 2016.

The average days sales outstanding for the three months ended September 30, 2016 and 2015 were 159 and 116 days, respectively, for each period. The days sales outstanding have been calculated by taking into consideration the average combined balances of accounts receivable and revenue in excess of billings.

Net cash used in investing activities was \$958,610 for the three months ended September 30, 2016, compared to \$445,536 for the three months ended September 30, 2015. We had purchases of property and equipment of \$554,873 compared to \$625,794 for the comparable period last fiscal year. During the three months ended September 30, 2016, we purchased a 2.5% interest in eeGeo, Inc. for \$555,556 increasing our investment to 4.9%.

Net cash provided by financing activities was \$241,757 and \$327,616 for the three months ended September 30, 2016, and 2015, respectively. The three months ended September 30, 2016 included the cash inflow of \$276,861 from the exercising of stock options and warrants. During the three months ended September 30, 2016, we had net payments from bank loans and capital leases of \$49,117 compared to net proceeds of \$262,685 for the three months ended September 30, 2015. We are operating in various geographical regions of the world through its various subsidiaries. Those subsidiaries have financial arrangements from various financial institutions to meet both their short and long term funding requirements. These loans will become due at different maturity dates as described in Note 12 of the financial statements. We are in compliance with the covenants of the financial arrangements and there is no default, which may lead to early payment of these obligations. We anticipate paying back all these obligations on their respective due dates from its own sources.

We typically fund the cash requirements for our operations in the U.S. through our license, services, and maintenance agreements, intercompany charges for corporate services, and through the exercise of options and warrants. As of September 30, 2016, we had approximately \$11.16 million of cash, cash equivalents and marketable securities of which approximately \$8.72 million is held by our foreign subsidiaries. As of June 30, 2016, we had approximately \$11.56 million of cash, cash equivalents and marketable securities of which approximately \$7.64 million is held by our foreign subsidiaries. We intend to permanently reinvest these funds outside the U.S., and therefore, we do not anticipate repatriating undistributed earnings from our non-U.S. operations. If funds from foreign operations are required to fund U.S. operations in the future, and if U.S. tax has not previously been provided, we would be required to accrue and pay additional U.S. taxes to repatriate these funds.

We remain open to strategic relationships that would provide value added benefits. The focus will remain on continuously improving cash reserves internally and reduced reliance on external capital raise.

As a growing company, we have on-going capital expenditure needs based on our short term and long term business plans. Although our requirements for capital expenses vary from time to time, for the next 12 months, we anticipate needing \$2 to \$3 million for APAC, U.S. and Europe new business development activities and infrastructure enhancements, which we expect to provide from current operations.

While there is no guarantee that any of these methods will result in raising sufficient funds to meet our capital needs or that even if available will be on terms acceptable to us, we will be very cautious and prudent about any new capital raise given the global market uncertainties. However, we are very conscious of the dilutive effect and price pressures in raising equity-based capital.

Financial Covenants

Our U.K. based subsidiary, NTE, has an approved overdraft facility of £300,000 which requires that the aggregate amount of invoiced trade debtors (net of provisions for bad and doubtful debts and excluding intra-group debtors) of NTE, not exceeding 90 days old, will not be less than an amount equal to 200% of the facility. NTE had been granted another credit facility of £1,000,000 for the VLS acquisition. This facility requires that NTE's adjusted tangible net worth would not be less than £600,000. For this purpose, adjusted tangible net worth means shareholders' funds less intangible assets plus non-redeemable preference shares. In addition, NTE's cash debt service coverage would not fall below 150% of the aggregate debt service cost.

The Pakistani subsidiary, NetSol PK, has an approved facility for export refinance from Askari Bank Limited amounting to Rupees 400 million or approximately \$3.86 million which requires NetSol PK to maintain a long term debt equity ratio of 60:40 and the current ratio of 1:1.

As of the date of this report, we are in compliance with the financial covenants associated with our borrowings. The maturity dates of the borrowings of respective subsidiaries may accelerate if they do not comply with these covenants. In case of any change in control in subsidiaries, they may have to repay their respective credit facilities.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for us include revenue recognition and multiple element arrangements, intangible assets, software development costs, and goodwill.

REVENUE RECOGNITION

The Company derives revenues from the following sources: (1) software licenses, (2) services, which include implementation and consulting services, and (3) maintenance, which includes post contract support.

The Company recognizes revenue from license contracts without major customization when a non-cancelable, non-contingent license agreement has been signed, delivery of the software has occurred, the fee is fixed or determinable, and collectability is probable. Delivery is considered to have occurred upon electronic transfer of the license key that provides immediate availability of the product to the purchaser. Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue the Company reports.

If an arrangement does not qualify for separate accounting of the software license and consulting transactions, then new software license revenue is generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed contract method. Contract accounting is applied to any arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license fees; (2) where services include significant modification or customization of the software; (3) where

significant consulting services are provided for in the software license contract without additional charge or are substantially discounted; or (4) where the software license payment is tied to the performance of consulting services.

Revenue from consulting services is recognized as the services are performed for time-and-materials contracts. Revenue from training and development services is recognized as the services are performed.

Revenue from maintenance agreements is recognized ratably over the term of the maintenance agreement, typically one year.

Multiple Element Arrangements

The Company may enter into multiple element revenue arrangements in which a customer may purchase a number of different combinations of software licenses, consulting services, maintenance and support, as well as training and development.

Vendor specific objective evidence (“VSOE”) of fair value for each element is based on the price for which the element is sold separately. The Company determines the VSOE of fair value of each element based on historical evidence of the Company’s stand-alone sales of these elements to third-parties or from the stated renewal rate for the elements contained in the initial software license arrangement. When VSOE of fair value does not exist for any undelivered element, revenue is deferred until the earlier of the point at which such VSOE of fair value exists or until all elements of the arrangement have been delivered. The only exception to this guidance is when the only undelivered element is maintenance and support or other services, then the entire arrangement fee is recognized ratably over the performance period.

INTANGIBLE ASSETS

Intangible assets consist of product licenses, renewals, enhancements, copyrights, trademarks, trade names, and customer lists. Intangible assets with finite lives are amortized over the estimated useful life and are evaluated for impairment at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess recoverability by determining whether the carrying value of such assets will be recovered through the undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of these assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

SOFTWARE DEVELOPMENT COSTS

Costs incurred to internally develop computer software products or to enhance an existing product are recorded as research and development costs and expensed when incurred until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers.

The Company makes on-going evaluations of the recoverability of its capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, the Company writes off the amount which the unamortized software development costs exceed net realizable value. Capitalized and purchased computer software development costs are being amortized ratably based on the projected revenue associated with the related software or on a straight-line basis.

STOCK-BASED COMPENSATION

Our stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including expected volatility and expected term. If any of the assumptions used in the BSM model changes significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience and our expectations regarding future pre-vesting termination behavior of employees. To the extent our actual forfeiture rate is different from our estimate; stock-based compensation expense is adjusted accordingly.

GOODWILL

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase businesses combination. Goodwill is reviewed for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

RECENT ACCOUNTING PRONOUNCEMENTES

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Financial Officer

and Chief Executive Officer concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management has the responsibility to establish and maintain adequate internal controls over our financial reporting, as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Our internal controls are designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our external financial statements in accordance with generally accepted accounting principles (GAAP).

Due to inherent limitations of any internal control system, management acknowledges that there are limitations as to the effectiveness of internal controls over financial reporting and therefore recognize that only reasonable assurance can be gained from any internal control system. Accordingly, our internal control system may not detect or prevent material misstatements in our financial statements and projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, we have performed an assessment of the effectiveness of our internal controls over financial reporting as of September 30, 2016. This assessment was based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of our assessment, the Company has determined that as of September 30, 2016, there was no material weakness in the Company's internal control over financial reporting. Our management, including our Chief Executive Officer, believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the three months ended September 30, 2016, that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)).

PART II OTHER INFORMATION

Item 1. Legal Proceedings

As previously disclosed, on July 25, 2014, purported class action lawsuits were filed in the U.S. District Court for the Central District of California against the Company and certain of its current or former officers and/or directors, which have been consolidated under the caption *Rand-Heart of New York, Inc. v. NetSol Technologies, Inc., et al.*, Case No. 2:14-cv-05787 PA (SHx). Plaintiffs subsequently filed consolidated amended complaints, which asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. As a result of the Company's motions, the Court dismissed all of plaintiffs' claims except those related to the scope of the Company's release of its next generation product, NFS Ascent™, during the narrow proposed class period of October 24, 2013 to November 8, 2013. The Company filed an answer and affirmative defenses denying the remaining claims. On February 26, 2016, the parties executed a Stipulation of Settlement to fully resolve the consolidated class action lawsuit, and filed a motion seeking the Federal Court's approval of the settlement. On March 28, 2016, the Court issued an order preliminarily approving the settlement and providing for notice to class members. Following class notice and hearing, the Court issued an order granting the motion for final approval of the settlement and plan of allocation and motion for an award of attorneys' fees and case expenses on July 1, 2016. The Court's Judgment approving the settlement on the terms set forth in the Stipulation of Settlement was signed on July 2, 2016. The cost of the settlement was covered by the Company's insurers.

On October 27, 2015, a shareholder derivative lawsuit was filed in the California state court entitled *McArthur v Ghauri, et al.*, Case No. BC599020 (Los Angeles, Cty.), naming current and former members of the Company's board of directors as defendants. The complaint alleges that the defendants breached their fiduciary duties based on the same alleged factual premise as the pending federal securities class action described above. The Company is named as a nominal defendant only and no damages are sought from it. On March 16, 2016, the parties in the California lawsuit reached an agreement-in-principle providing for the settlement of that case. The proposed settlement is on the terms and conditions set forth in a Memorandum of Understanding ("MOU").

On December 30, 2015, a virtually identical shareholder derivative lawsuit was filed in Nevada state court, *Paulovits v. Ghauri, et al.*, Case No. CV15-02470 (Washoe Cty.). The Nevada complaint names the same defendants and is

based on the same alleged facts as the earlier-filed California case. On April 29, 2016, the Company filed a motion to dismiss or stay the Nevada proceeding on multiple grounds, including that is it duplicative of the first-filed California action. On May 23, 2016, pursuant to the parties' stipulation, the Nevada court ordered that matter to be stayed for a period of one year.

On June 15, 2016, the parties in the California and the Nevada cases jointly executed a Stipulation and Agreement of Settlement of Derivative Claims, which is intended to fully resolve both cases. Pursuant to the stipulation and subject to the court's approval, the Company has agreed to adopt or maintain certain corporate governance measures, and has agreed to cause its insurers to pay plaintiff counsel's fees and expenses in an aggregate amount not to exceed \$175,000. On June 16, 2016, the California plaintiff filed a motion for preliminary approval of the derivative settlement. The motion for approval of the settlement was continued by the California court until December 14, 2016.

Item 1A. Risk Factors

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO)

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO)

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO)

Page 35

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETSOL TECHNOLOGIES, INC.

Date: November 14, 2016 */s/ Najeeb U. Ghauri*
NAJEEB U. GHURI
Chief Executive Officer

Date: November 14, 2016 */s/ Roger K. Almond*
ROGER K. ALMOND
Chief Financial Officer
Principal Accounting Officer

