

NETSOL TECHNOLOGIES INC  
Form 10-Q  
February 14, 2017

**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 December 31, 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)

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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 10,993,054 shares of its \$.01 par value Common Stock and no Preferred Stock issued and outstanding as of February 10, 2017.

**NETSOL TECHNOLOGIES,INC**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	As of December 31, 2016	As of June 30, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$9,505,383	\$11,557,527
Accounts receivable, net of allowance of \$495,760 and \$492,498	5,840,490	9,691,229
Accounts receivable, net - related party	4,303,380	5,691,178
Revenues in excess of billings	17,646,488	10,493,096
Revenues in excess of billings - related party	469,030	804,168
Other current assets	2,904,650	2,214,628
Total current assets	40,669,421	40,451,826
Restricted cash	90,000	90,000
Property and equipment, net	21,873,277	22,774,435
Other assets	2,054,938	842,553
Intangible assets, net	18,423,439	19,674,033
Goodwill	9,516,568	9,516,568
Total assets	\$92,627,643	\$93,349,415
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$7,373,097	\$5,962,770
Current portion of loans and obligations under capitalized leases	4,368,930	4,440,084
Unearned revenues	2,806,804	4,739,214
Common stock to be issued	88,324	88,324
Total current liabilities	14,637,155	15,230,392
Long term loans and obligations under capitalized leases; less current maturities	501,554	477,692
Total liabilities	15,138,709	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; 10,993,054 shares issued and 10,958,275 outstanding as of December 31, 2016 and 10,713,372 shares issued and 10,686,093 outstanding as of June 30, 2016	109,931	107,134

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Additional paid-in-capital	123,019,215	121,448,946
Treasury stock (34,779 shares and 27,279 shares)	(454,310 )	(415,425 )
Accumulated deficit	(40,074,755 )	(37,323,360 )
Stock subscription receivable	(450,220 )	(783,172 )
Other comprehensive loss	(18,628,395 )	(18,730,494 )
Total NetSol stockholders' equity	63,521,466	64,303,629
Non-controlling interest	13,967,468	13,337,702
Total stockholders' equity	77,488,934	77,641,331
Total liabilities and stockholders' equity	\$92,627,643	\$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 December 31,		For the Six Months Ended December 31,	
	2016	2015	2016	2015
Net Revenues:				
License fees	\$5,350,086	\$709,691	\$8,849,946	\$1,903,045
Maintenance fees	3,787,696	3,240,472	7,190,517	6,252,710
Services	6,984,084	9,574,104	12,790,801	16,327,977
License fees - related party	-	-	246,957	-
Maintenance fees - related party	51,345	31,755	181,976	189,986
Services - related party	1,464,901	2,635,675	3,379,473	4,823,083
Total net revenues	17,638,112	16,191,697	32,639,670	29,496,801
Cost of revenues:				
Salaries and consultants	5,979,804	5,083,412	11,873,153	10,244,661
Travel	836,240	754,009	1,548,135	1,235,462
Depreciation and amortization	1,318,764	1,461,466	2,649,636	2,935,701
Other	1,065,727	1,022,682	2,038,065	1,961,479
Total cost of revenues	9,200,535	8,321,569	18,108,989	16,377,303
Gross profit	8,437,577	7,870,128	14,530,681	13,119,498
Operating expenses:				
Selling and marketing	2,713,478	2,002,990	5,057,516	3,701,394
Depreciation and amortization	271,485	285,616	540,582	576,788
General and administrative	3,933,413	3,378,829	8,552,609	6,583,517
Research and development cost	91,607	117,924	184,539	229,994
Total operating expenses	7,009,983	5,785,359	14,335,246	11,091,693
Income from operations	1,427,594	2,084,769	195,435	2,027,805
Other income and (expenses)				
Loss on sale of assets	(32,339 )	(2,333 )	(34,742 )	(14,206 )
Interest expense	(62,127 )	(72,156 )	(116,602 )	(140,329 )
Interest income	23,416	35,299	53,856	87,411
Loss on foreign currency exchange transactions	(621,887 )	(134,527 )	(1,036,783 )	(248,246 )
Other income	6,823	120,684	28,383	174,998
Total other income (expenses)	(686,114 )	(53,033 )	(1,105,888 )	(140,372 )
Net income (loss) before income taxes	741,480	2,031,736	(910,453 )	1,887,433
Income tax provision	(338,884 )	(273,275 )	(378,759 )	(348,498 )

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Net income (loss)	402,596	1,758,461	(1,289,212 )	1,538,935
Non-controlling interest	(1,388,272 )	(883,396 )	(1,462,183 )	(1,074,898 )
Net income (loss) attributable to NetSol	\$(985,676 )	\$875,065	\$(2,751,395 )	\$464,037
Net income (loss) per share:				
Net income (loss) per common share				
Basic	\$(0.09 )	\$0.08	\$(0.26 )	\$0.05
Diluted	\$(0.09 )	\$0.08	\$(0.26 )	\$0.04
Weighted average number of shares outstanding				
Basic	10,877,446	10,308,186	10,783,685	10,294,760
Diluted	10,877,446	10,548,922	10,783,685	10,535,497

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 December 31,		For the Six Months Ended December 31,	
	2016	2015	2016	2015
Net income (loss)	\$(985,676 )	\$875,065	\$(2,751,395)	\$464,037
Other comprehensive income (loss):				
Translation adjustment	(944,837 )	(665,906)	149,237	(1,914,473)
Comprehensive income (loss)	(1,930,513)	209,159	(2,602,158)	(1,450,436)
Comprehensive income (loss) attributable to non-controlling interest	(276,575 )	(249,910)	47,138	(535,277 )
Comprehensive income (loss) attributable to NetSol	\$(1,653,938)	\$459,069	\$(2,649,296)	\$(915,159 )

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 Six Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	\$(1,289,212 )	\$1,538,935
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,190,218	3,512,489
Provision for bad debts	1,026	37,043
Loss on sale of assets	34,742	14,206
Stock issued for services	1,525,775	326,019
Fair market value of warrants and stock options granted	21,804	145,716
Changes in operating assets and liabilities:		
Accounts receivable	3,678,110	111,967
Accounts receivable - related party	829,285	(2,383,828 )
Revenues in excess of billing	(7,219,089 )	520,071
Revenues in excess of billing - related party	285,791	15,866
Other current assets	585,147	(758,802 )
Accounts payable and accrued expenses	334,241	142,008
Unearned revenue	(1,908,440 )	(1,190,072 )
Net cash provided by operating activities	69,398	2,031,618
Cash flows from investing activities:		
Purchases of property and equipment	(1,074,316 )	(1,177,443 )
Sales of property and equipment	181,087	357,933
Purchase of treasury stock	(38,885 )	-
Purchase of non-controlling interest in subsidiary	-	(347,623 )
Investment	(705,555 )	-
Net cash used in investing activities	(1,637,669 )	(1,167,133 )
Cash flows from financing activities:		
Proceeds from sale of common stock	-	64,931
Proceeds from the exercise of stock options and warrants	429,452	194,680
Proceeds from exercise of subsidiary options	18,089	-
Dividend paid by subsidiary to Non-controlling interest	(968,657 )	-
Proceeds from bank loans	-	306,750
Payments on capital lease obligations and loans - net	(69,998 )	(530,733 )
Net cash provided by (used in) financing activities	(591,114 )	35,628
Effect of exchange rate changes	107,241	(1,082,297 )
Net decrease in cash and cash equivalents	(2,052,144 )	(182,184 )
Cash and cash equivalents, beginning of the period	11,557,527	14,168,957

Cash and cash equivalents, end of period	\$9,505,383	\$13,986,773
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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 Six Months  
Ended December 31,  
2016      2015

**SUPPLEMENTAL DISCLOSURES:**

Cash paid during the period for:

Interest	\$123,682	\$132,764
Taxes	\$77,414	\$156,737

**NON-CASH INVESTING AND FINANCING ACTIVITIES:**

Provided services for investment in eeGeo, Inc.	\$549,621	\$-
Assets acquired under capital lease	\$312,632	\$-

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**NETSOL TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 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 December 31, 2016, and June 30, 2016, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately \$7,869,426 and \$7,640,095, respectively. The Company has not experienced any losses in such accounts.



**NETSOL TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 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**

On November 17, 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. It is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The new standard requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for annual periods beginning after December 15, 2017 including interim periods within those fiscal years. Earlier adoption is permitted. The Company maintains restricted cash balances and upon adoption of this standard, the Company will show restricted cash as part of cash and restricted cash equivalents.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Clarifying the Definition of a Business, which clarifies and provides a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this update should be applied prospectively on or after the effective date. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those periods. Early adoption is permitted for acquisition or deconsolidation transactions occurring before the issuance date or effective date and only when the transactions have not been reported in issued or made available for issuance financial statements. The Company does not expect the adoption to have any significant impact on its Consolidated Financial

Statements.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods. Early adoption is permitted for interim or annual goodwill impairment test performed on testing dates after January 1, 2017. The Company will apply this guidance to applicable impairment tests after the adoption date.

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**NETSOL TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 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 components of basic and diluted earnings per share were as follows:

	For the three months ended December 31, 2016			For the six months ended December 31, 2016		
	Net Loss	Shares	Per Share	Net Loss	Shares	Per Share
Basic loss per share:						
Net loss available to common shareholders	\$(985,676)	10,877,446	\$(0.09)	\$(2,751,395)	10,783,685	\$(0.26)
Effect of dilutive securities						
Stock options	-	-	-	-	-	-
Warrants	-	-	-	-	-	-
Diluted loss per share	\$(985,676)	10,877,446	\$(0.09)	\$(2,751,395)	10,783,685	\$(0.26)

	For the three months ended December 31, 2015			For the six months ended December 31, 2015		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
Basic income per share:						
Net income available to common shareholders	\$875,065	10,308,186	\$0.08	\$464,037	10,294,760	\$0.05
Effect of dilutive securities						
Stock options	-	237,618	-	-	237,618	-
Warrants	-	3,118	-	-	3,118	-
Diluted income per share	\$875,065	10,548,922	\$0.08	\$464,037	10,535,496	\$0.04

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 December 31, 2016		For the Six Months Ended December 31, 2015	
Stock Options	480,133	-	480,133	-
Warrants	11,075	-	11,075	-
	491,208	-	491,208	-

#### 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 \$18,628,395 and \$18,730,494 as of December 31, 2016 and June 30, 2016, respectively. During the three and six months ended December 31, 2016, comprehensive income (loss) in the consolidated statements of operations included a translation loss of \$668,262 and translation income of \$102,099, respectively. During the three and six months ended December 31, 2015, comprehensive income (loss) in the consolidated statements of operations included a translation loss of \$415,996 and \$1,379,196, 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 and six months ended December 31, 2016, NetSol-Innovation provided services of \$1,401,144 and \$2,956,619, respectively. During the three and six months ended December 31, 2015, NetSol-Innovation provided services of \$2,128,727 and \$4,026,526, respectively. Accounts receivable at December 31, 2016 and June 30, 2016 were \$4,221,689 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 and six months ended December 31, 2016, NTE and VLS provided license, maintenance and services of \$115,102 and \$851,787, respectively. During the three and six months ended December 31, 2015, NTE and VLS provided maintenance and services of \$538,703 and \$986,543, respectively. Accounts receivable at December 31, 2016 and June 30, 2016 were \$81,691 and \$1,001,856, respectively. Revenue in excess of billing at December 31, 2016 and June 30, 2016 were \$469,030 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. (“eeGeo”) for \$1,111,111. See Note 8 “Other Long Term Assets”.

**NETSOL TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**  
**(UNAUDITED)**

**NOTE 6 - OTHER CURRENT ASSETS**

Other current assets consisted of the following:

	As of December 31, 2016	As of June 30, 2016
Prepaid Expenses	\$665,018	\$386,578
Advance Income Tax	1,061,190	968,334
Employee Advances	57,934	83,978
Security Deposits	280,465	72,985
Other Receivables	515,571	486,562
Other Assets	324,472	216,191
Total	\$2,904,650	\$2,214,628

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	As of December 31, 2016	As of June 30, 2016
Office Furniture and Equipment	\$3,434,984	\$3,346,156
Computer Equipment	26,125,171	25,935,620
Assets Under Capital Leases	2,557,974	2,409,074
Building	9,244,025	9,185,570
Land	2,427,467	2,410,664
Autos	1,219,978	1,073,447
Improvements	387,820	385,135
Subtotal	45,397,419	44,745,666
Accumulated Depreciation	(23,524,142)	(21,971,231)

Property and Equipment, Net      \$21,873,277    \$22,774,435

For the three and six months ended December 31, 2016, depreciation expense totaled \$902,678 and \$1,801,981, respectively. Of these amounts, \$631,193 and \$1,261,399, respectively, are reflected in cost of revenues. For the three and six months ended December 31, 2015, depreciation expense totaled \$1,060,216 and \$2,124,105, respectively. Of these amounts, \$774,600 and \$1,547,317, respectively, are reflected in cost of revenues.

**NETSOL TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**  
**(UNAUDITED)**

Following is a summary of fixed assets held under capital leases as of December 31, 2016 and June 30, 2016:

	As of December 31, 2016	As of June 30, 2016
Computers and Other Equipment	\$387,033	\$503,926
Furniture and Fixtures	410,591	408,200
Vehicles	1,760,350	1,496,948
Total	2,557,974	2,409,074
Less: Accumulated Depreciation - Net	(790,786 )	(713,248 )
	\$1,767,188	\$1,695,826

**NOTE 8 – OTHER LONG TERM ASSETS**

	As of December 31, 2016	As of June 30, 2016
Investment	(1) \$1,975,527	\$720,350
Long Term Security Deposits	79,411	122,203
Total	\$2,054,938	\$842,553

(1) Investment under cost method

On March 2, 2016, the Company purchased a 4.9% interest in eeGeo 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, 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. If NetSol PK fails to provide the future services, it may be required to forfeit the shares back to eeGeo. During the six months ended December 31, 2016, NetSol PK paid \$150,000 to eeGeo for its share of investment. During the three and six months ended December 31, 2016, NetSol PK provided services valued at \$300,963 and \$549,621, respectively. As of December 31, 2016, the accumulated balance of services provided was \$714,416 which is recorded as investment.

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

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

The warrants expire on March 2, 2020.

“Next Round Preferred” is defined as occurring if eeGeo’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

b) 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 December 31, 2016, the Company has determined that there is no impairment.

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**NOTE 9 - INTANGIBLE ASSETS**

Intangible assets consisted of the following:

	As of December 31, 2016	As of June 30, 2016
Product Licenses - Cost	\$47,244,997	\$48,632,368
Additions	-	-
Deletions	-	(1,387,371 )
Effect of Translation Adjustment	(3,265,457 )	(3,323,518 )
Accumulated Amortization	(25,556,101)	(24,247,446)
Net Balance	\$18,423,439	\$19,674,033

(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 \$18,423,439 will be amortized over the next 7.25 years. Amortization expense for the three and six months ended December 31, 2016 was \$687,571 and \$1,388,237, respectively. Amortization expense for the three and six months ended December 31, 2015 was \$686,866 and \$1,388,384, respectively.

(B) Future Amortization

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

Year ended:



December 31, 2017	\$2,777,259
December 31, 2018	2,777,259
December 31, 2019	2,777,259
December 31, 2020	2,777,259
December 31, 2021	2,777,259
Thereafter	4,537,144
	\$18,423,439

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 December 31, 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

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The Company tests for goodwill impairment at each reporting unit. There was no goodwill impairment for the period ended December 31, 2016.

**NOTE 11 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of the following:

	As of December 31, 2016	As of June 30, 2016
Accounts Payable	\$1,579,841	\$1,346,532
Accrued Liabilities	4,787,577	4,171,058
Accrued Payroll & Taxes	609,154	231,881
Taxes Payable	264,332	66,437
Other Payable	132,193	146,862
Total	\$7,373,097	\$5,962,770

**NOTE 12 – DEBTS**

Notes payable and capital leases consisted of the following:

Name	As of December 31, 2016		
	Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1) \$89,732	\$89,732	\$ -
HSBC Loan	(2) -	-	-
Loan Payable Bank	(3) 3,819,345	3,819,345	-
		3,909,077	-
Subsidiary Capital Leases	(4) 961,407	459,853	501,554

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\$4,870,484 \$4,368,930 \$ 501,554

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 5.9% as of December 31, 2016 and June 30, 2016, respectively.

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(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 \$1,234,568 for a period of 5 years with monthly payments of £18,420, or approximately \$22,741. 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 and six months ended December 31, 2016 was \$38 and \$1,596, respectively. Interest expense for the three and six months ended December 31, 2015 was \$1,161 and \$9,011, respectively. NTE paid this loan in full during six months ended December 31, 2016.

(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 \$3,819,345. The interest rate for the loans was 3% and 4.5% at December 31, 2016 and June 30, 2016, respectively. Interest expense for the three and six months ended December 31, 2016 was \$28,527 and \$57,592, respectively. Interest expense for the three and six months ended December 31, 2015 was \$36,980 and \$77,986, 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 December 31, 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 2021. 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 and six months ended December 31, 2016 and 2015.

Following is the aggregate minimum future lease payments under capital leases as of December 31, 2016:

	Amount
Minimum Lease Payments	
Due FYE 12/31/17	\$517,595
Due FYE 12/31/18	396,414

Due FYE 12/31/19	126,178
Due FYE 12/31/20	6,551
Due FYE 12/31/21	5,459
Total Minimum Lease Payments	1,052,197
Interest Expense relating to future periods	(90,790 )
Present Value of minimum lease payments	961,407
Less: Current portion	(459,853 )
Non-Current portion	\$501,554

#### NOTE 13 - STOCKHOLDERS' EQUITY

During the six months ended December 31, 2016, the Company issued 77,458 shares of common stock for services rendered by officers of the Company. These shares were valued at the fair market value of \$463,548.

During the six months ended December 31, 2016, the Company issued 44,751 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 \$256,353.

During the six months ended December 31, 2016, the Company issued 137,158 shares of its common stock to employees pursuant to the terms of their employment agreements valued at \$805,874.

During the six months ended December 31, 2016, the Company collected subscription receivable of \$332,952 related to the exercise of stock options in previous years.

During the six months ended December 31, 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.

During the six months ended December 31, 2016, the Company purchased 7,500 of shares of its common stock from open market at an average price of \$5.18 per share.

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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 Price	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	(130,000)	\$ 7.50		
Outstanding and exercisable, December 31, 2016	480,133	\$ 4.20	0.67	\$ 561,886

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, December 31, 2016	11,075	\$5.00	0.18	\$2,215

The following table summarizes information about stock options and warrants outstanding and exercisable at December 31, 2016.

Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Ave Exercise Price
OPTIONS: \$0.10 - \$9.90	479,133	0.67	\$ 4.17

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\$10.00 - \$19.90	1,000	0.56	\$ 16.00
Totals	480,133	0.67	\$ 4.20

WARRANTS:

\$5.00 - \$7.50	11,075	0.18	\$ 5.00
Totals	11,075	0.18	\$ 5.00

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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
Cancelled	(1,000 )	\$ 5.09
Vested / cancelled	(229,616)	\$ 5.86
Unvested, December 31, 2016	629,258	\$ 6.09

For the three and six months ended December 31, 2016, the Company recorded compensation expense of \$682,640, and \$1,548,096 respectively. For the three and six months ended December 31, 2015, the Company recorded compensation expense of \$248,268 and \$326,019, respectively. The compensation expense related to the unvested stock grants as of December 31, 2016 was \$3,628,898 which will be recognized during the fiscal years 2017 through 2022.

#### OPTIONS

During the six months ended December 31, 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.

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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 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. Effective January 9, 2017, the California Court issued a preliminary order approving the settlement. A final approval hearing is scheduled for April 6, 2017.

**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 December 31, 2016 and June 30, 2016:

	As of December 31, 2016	As of June 30, 2016
Identifiable assets:		
Corporate headquarters	\$2,854,674	\$3,646,160
North America	6,380,919	6,845,444
Europe	7,081,665	7,857,427
Asia - Pacific	76,310,385	75,000,384
Consolidated	\$92,627,643	\$93,349,415

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The following table presents a summary of operating information for the three and six months ended December 31:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2016	2015	2016	2015
Revenues from unaffiliated customers:				
North America	\$ 1,513,997	\$ 952,738	\$ 3,355,428	\$ 2,455,206
Europe	1,298,037	1,679,224	2,504,086	3,177,755
Asia - Pacific	13,309,832	10,892,305	22,971,750	18,850,771
	16,121,866	13,524,267	28,831,264	24,483,732
Revenue from affiliated customers				
Europe	115,102	538,703	851,787	986,543
Asia - Pacific	1,401,144	2,128,727	2,956,619	4,026,526
	1,516,246	2,667,430	3,808,406	5,013,069
Consolidated	\$ 17,638,112	\$ 16,191,697	\$ 32,639,670	\$ 29,496,801
Intercompany revenue				
Europe	\$ 95,053	\$ 105,707	\$ 231,180	\$ 242,493
Asia - Pacific	1,462,603	2,115,420	1,922,554	3,059,609
Eliminated	\$ 1,557,656	\$ 2,221,127	\$ 2,153,734	\$ 3,302,102
Net income (loss) after taxes and before non-controlling interest:				
Corporate headquarters	\$ (1,190,559 )	\$ (1,116,822 )	\$ (2,820,076 )	\$ (1,189,828 )
North America	(71,134 )	(332,899 )	196,758	(419,760 )
Europe	(698,364 )	35,530	(798,652 )	(654,170 )
Asia - Pacific	2,362,653	3,172,652	2,132,758	3,802,693
Consolidated	\$ 402,596	\$ 1,758,461	\$ (1,289,212 )	\$ 1,538,935

The following table presents a summary of capital expenditures for the six months ended December 31:

	For the Six Months Ended December 31,	
	2016	2015
Capital expenditures:		
Corporate headquarters	\$-	\$-

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North America	41,275	44,679
Europe	273,794	63,222
Asia - Pacific	759,247	1,069,542
Consolidated	\$1,074,316	\$1,177,443

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**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 December 31, 2016
NetSol PK	33.53	% \$ 11,330,750
NetSol-Innovation	49.90	% 2,343,344
VLS, VLSH & VLSIL Combined	49.00	% 293,411
NetSol Thai	0.006	% (37 )
Total		\$ 13,967,468

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 six months ended December 31, 2016, employees of NetSol PK exercised 116,000 options of common stock pursuant to employees exercising stock options and NetSol PK received cash of \$18,089, resulting in an increase in non-controlling interest from 33.40% to 33.53%.

During the six months ended December 31, 2016, NetSol PK paid a cash dividend of \$425,988.

**NETSOL INNOVATION**

During the six months ended December 31, 2016, NetSol-Innovation paid a cash dividend of \$1,669,199.

## 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 and six months ended December 31, 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 NFS™ (NetSol Financial Suite) and NFS Ascend™ 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 multibillion 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 six months ended December 31, 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 six months ended December 31, 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 Australia and New Zealand. The first implementation phase continues in China, Korea, and South Africa.

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.

Went live with NFS legacy system in China.

A restructuring of the Company's efficiencies initiated in December 2016, is expected to result in approximately \$4 million in savings spread over the next year.

Teamed up with Microsoft Pakistan to foster innovation, encourage entrepreneurship and provide senior mentorship to promising new start-ups as part of the NSPIRE program.

NetSol PK signed an agreement with Microsoft North Africa, East Mediterranean & Pakistan to further support the Pakistan technological start-ups.

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 \$55 billion in Pakistan on energy and infrastructure projects.

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

Continued interest from existing Auto Captives Clients and few new major prospective clients for Ascent

According to Business Insider, US auto manufactures hit a record 18.4 million units of new car sales in 2016 up from 17.5 million in 2015.

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

According to a Bloomberg December 2016 report, China's car sales have been on a 26-year Record Streak fueled by tax break to consumers.

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™.

As noted by Bloomberg, an improved economic environment, major foreign investment and improved security in Pakistan should restore business confidence and increase foreign travel.

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.

Uncertainty in European countries due to Brexit.

Continued concerns about absorbing refugees and associated security risks in Europe.

**CHANGES IN FINANCIAL CONDITION****Quarter Ended December 31, 2016 compared to the Quarter Ended December 31, 2015**

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the quarter ended December 31, 2016 and 2015 as a percentage of revenues.

	For the Three Months Ended December 31,			
	2016	%	2015	%
<b>Net Revenues:</b>				
License fees	\$5,350,086	30.33 %	\$709,691	4.38 %
Maintenance fees	3,787,696	21.47 %	3,240,472	20.01 %
Services	6,984,084	39.60 %	9,574,104	59.13 %
Maintenance fees - related party	51,345	0.29 %	31,755	0.20 %
Services - related party	1,464,901	8.31 %	2,635,675	16.28 %
Total net revenues	17,638,112	100.00 %	16,191,697	100.00 %
<b>Cost of revenues:</b>				
Salaries and consultants	5,979,804	33.90 %	5,083,412	31.40 %
Travel	836,240	4.74 %	754,009	4.66 %
Depreciation and amortization	1,318,764	7.48 %	1,461,466	9.03 %
Other	1,065,727	6.04 %	1,022,682	6.32 %
Total cost of revenues	9,200,535	52.16 %	8,321,569	51.39 %
Gross profit	8,437,577	47.84 %	7,870,128	48.61 %
<b>Operating expenses:</b>				
Selling and marketing	2,713,478	15.38 %	2,002,990	12.37 %
Depreciation and amortization	271,485	1.54 %	285,616	1.76 %
General and administrative	3,933,413	22.30 %	3,378,829	20.87 %
Research and development cost	91,607	0.52 %	117,924	0.73 %
Total operating expenses	7,009,983	39.74 %	5,785,359	35.73 %
Income from operations	1,427,594	8.09 %	2,084,769	12.88 %
<b>Other income and (expenses)</b>				
Loss on sale of assets	(32,339 )	-0.18 %	(2,333 )	-0.01 %
Interest expense	(62,127 )	-0.35 %	(72,156 )	-0.45 %
Interest income	23,416	0.13 %	35,299	0.22 %
Loss on foreign currency exchange transactions	(621,887 )	-3.53 %	(134,527 )	-0.83 %
Other income	6,823	0.04 %	120,684	0.75 %
Total other income (expenses)	(686,114 )	-3.89 %	(53,033 )	-0.33 %

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Net income (loss) before income taxes	741,480	4.20	%	2,031,736	12.55	%
Income tax provision	(338,884 )	-1.92	%	(273,275 )	-1.69	%
Net income (loss)	402,596	2.28	%	1,758,461	10.86	%
Non-controlling interest	(1,388,272 )	-7.87	%	(883,396 )	-5.46	%
Net income (loss) attributable to NetSol	\$(985,676 )	-5.59	%	\$875,065	5.40	%

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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 Condensed 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 December 31,				Favorable (Unfavorable) Change in Constant Currency	Favorable (Unfavorable) Change due to Currency Fluctuation	Total Favorable (Unfavorable) Change as Reported
	2016	%	2015	%			
Net Revenues:	17,638,112	100.00%	16,191,697	100.00%	1,738,617	(292,202 )	1,446,425
Cost of revenues:	9,200,535	52.16 %	8,321,569	51.39 %	(1,093,111 )	214,145	(878,966 )
Gross profit	8,437,577	47.84 %	7,870,128	48.61 %	645,506	(78,057 )	567,449
		0.00 %		0.00 %			
Operating expenses:	7,009,983	39.74 %	5,785,359	35.73 %	(1,439,578 )	214,954	(1,224,624 )
Income from operations	1,427,594	8.09 %	2,084,769	12.88 %	(794,072 )	136,897	(657,175 )

Net revenues for the quarter ended December 31, 2016 and 2015 are broken out among the segments as follows:

	2016		2015		
	Revenue	%	Revenue	%	
North America	\$1,513,997	8.61 %	\$952,738	5.88 %	
Europe	1,413,139	8.04 %	2,217,927	13.70 %	
Asia-Pacific	14,658,832	83.36 %	13,021,032	80.42 %	
Total	\$17,585,968	100.00%	\$16,191,697	100.00%	

### Revenues



License fees

License fees for the three months ended December 31, 2016 were \$5,350,086 compared to \$709,691 for the three months ended December 31, 2015 reflecting an increase of \$4,640,395 with a change in constant currency of \$4,678,514. During the three months ended December 31, 2016, we increased our license revenues through sales of our NFS Ascent™ product and sales of our regional offerings in the U.S.

Maintenance fees

Maintenance fees for the three months ended December 31, 2016 were \$3,839,041 compared to \$3,272,227 for the three months ended December 31, 2015 reflecting an increase of \$566,814 with a change in constant currency of \$670,830. Maintenance fees include maintenance provided to related parties of \$51,345 for the three months ended December 31, 2016 compared to \$31,755 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 December 31, 2016 was \$8,448,985 compared to \$12,209,779 for the three months ended December 31, 2015 reflecting a decrease of \$3,760,794 with a change in constant currency of \$3,610,727. Included in the services revenue are services provided to related parties of \$1,464,901 for the three months ended December 31, 2016 compared to \$2,635,675 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 \$8,437,577, for the three months ended December 31, 2016 as compared with \$7,870,128 for the three months ended December 31, 2015. This is an increase of \$567,449 with an increase in constant currency of \$645,506. The gross profit percentage for the three months ended December 31, 2016 slightly decreased to 47.84% from 48.61% for the three months ended December 31, 2015. The cost of sales was \$9,200,535 for the three months ended December 31, 2016 compared to \$8,321,569 for the three months ended December 31, 2015 for an increase of \$878,966 and on a constant currency basis an increase of \$1,093,111. As a percentage of sales, cost of sales increased from 51.39% for the three months ended December 31, 2015 to 52.16% for the three months ended December 31, 2016.

Salaries and consultant fees increased by \$896,392 from \$5,083,412 for the three months ended December 31, 2015 to \$5,979,804 for the three months ended December 31, 2016 and on a constant currency basis increased \$1,050,256. 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 \$1,318,764 compared to \$1,461,466 for the three months ended December 31, 2015 or a decrease of \$142,702 and on a constant currency basis a decrease of \$143,820. Depreciation and amortization expense decreased as some products became fully amortized.

## *Operating Expenses*

Operating expenses were \$7,009,983 for the three months ended December 31, 2016 compared to \$5,785,359, for the three months ended December 31, 2015 for an increase of 21.17% or \$1,224,624 and on a constant currency basis an increase of 24.88% or \$1,439,578. As a percentage of sales, it increased from 35.73% to 39.74%. The increase in operating expenses was primarily due to the increase in selling and marketing expenses of \$710,488 or 35.47% and on a constant currency basis an increase of \$808,840 or 40.38%, and an increase in general and administrative expenses of \$554,584 or 16.41% and on a constant currency basis an increase of \$661,841 or 19.59%.

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 \$3,933,413 for the three months ended December 31, 2016 compared to \$3,378,829 at December 31, 2015 or an increase of \$554,584 or 16.41% and on a constant currency basis an increase of \$661,841 or 19.59%. During the three months ended December 31, 2016, salaries increased by approximately \$793,188 or \$853,938 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 decreased by approximately \$110,835 or \$73,520 on a constant currency basis; professional services decreased by approximately \$127,769 or \$118,577 on a constant currency basis.

#### *Income from Operations*

Income from operations was \$1,427,594 for the three months ended December 31, 2016 compared to \$2,084,769 for the three months ended December 31, 2015. This represents a decrease in income of \$657,175 with a decrease in income of \$794,072 on a constant currency basis for the three months ended December 31, 2016 compared with the three months ended December 31, 2015. As a percentage of sales, net income from operations was 8.09% for the three months ended December 31, 2016 compared to 12.88% for the three months ended December 31, 2015.

*Net Loss*

Net loss was \$985,676 for the three months ended December 31, 2016 compared to net income of \$875,065 for the three months ended December 31, 2015. This is an increase in loss of \$1,860,741 compared to the prior year. For the three months ended December 31, 2016, net loss per basic and diluted share was \$0.09 compared to net income per basic and diluted share of \$0.08 for the three months ended December 31, 2015.

**Six Months Ended December 31, 2016 compared to the Six Months Ended December 31, 2015**

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the six months ended December 31, 2016 and 2015 as a percentage of revenues.

	For the Six Months Ended December 31,			
	2016	%	2015	%
<b>Net Revenues:</b>				
License fees	\$8,849,946	27.11 %	\$1,903,045	6.45 %
Maintenance fees	7,190,517	22.03 %	6,252,710	21.20 %
Services	12,790,801	39.19 %	16,327,977	55.36 %
License fees - related party	246,957	0.76 %	-	0.00 %
Maintenance fees - related party	181,976	0.56 %	189,986	0.64 %
Services - related party	3,379,473	10.35 %	4,823,083	16.35 %
Total net revenues	32,639,670	100.00%	29,496,801	100.00%
<b>Cost of revenues:</b>				
Salaries and consultants	11,873,153	36.38 %	10,244,661	34.73 %
Travel	1,548,135	4.74 %	1,235,462	4.19 %
Depreciation and amortization	2,649,636	8.12 %	2,935,701	9.95 %
Other	2,038,065	6.24 %	1,961,479	6.65 %
Total cost of revenues	18,108,989	55.48 %	16,377,303	55.52 %
Gross profit	14,530,681	44.52 %	13,119,498	44.48 %
<b>Operating expenses:</b>				
Selling and marketing	5,057,516	15.49 %	3,701,394	12.55 %
Depreciation and amortization	540,582	1.66 %	576,788	1.96 %
General and administrative	8,552,609	26.20 %	6,583,517	22.32 %
Research and development cost	184,539	0.57 %	229,994	0.78 %
Total operating expenses	14,335,246	43.92 %	11,091,693	37.60 %
Income from operations	195,435	0.60 %	2,027,805	6.87 %

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Other income and (expenses)					
Loss on sale of assets	(34,742 )	-0.11 %	(14,206 )	-0.05 %	
Interest expense	(116,602 )	-0.36 %	(140,329 )	-0.48 %	
Interest income	53,856	0.17 %	87,411	0.30 %	
Loss on foreign currency exchange transactions	(1,036,783 )	-3.18 %	(248,246 )	-0.84 %	
Other income	28,383	0.09 %	174,998	0.59 %	
Total other income (expenses)	(1,105,888 )	-3.39 %	(140,372 )	-0.48 %	
Net income (loss) before income taxes	(910,453 )	-2.79 %	1,887,433	6.40 %	
Income tax provision	(378,759 )	-1.16 %	(348,498 )	-1.18 %	
Net income (loss)	(1,289,212 )	-3.95 %	1,538,935	5.22 %	
Non-controlling interest	(1,462,183 )	-4.48 %	(1,074,898 )	-3.64 %	
Net income (loss) attributable to NetSol	\$(2,751,395 )	-8.43 %	\$464,037	1.57 %	

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	For the Six Months Ended December 31,		2015		Favorable (Unfavorable) Change in Constant Currency	Favorable (Unfavorable) Change due to Currency Fluctuation	Total Favorable (Unfavorable) Change as Reported
	2016	%	2015	%			
Net Revenues:	32,639,670	100.00 %	29,496,801	100.00 %	3,804,173	(661,304 )	3,142,869
Cost of revenues:	18,108,989	55.48 %	16,377,303	55.52 %	(2,104,980 )	373,294	(1,731,686 )
Gross profit	14,530,681	44.52 %	13,119,498	44.48 %	1,699,193	(288,010 )	1,411,183
Operating expenses:	14,335,246	43.92 %	11,091,693	37.60 %	(3,676,464 )	432,911	(3,243,553 )
Income from operations	195,435	0.60 %	2,027,805	6.87 %	(1,977,271 )	144,901	(1,832,370 )

Net revenues for the six months ended December 31, 2016 and 2015 are broken out among the segments as follows:

	2016		2015		
	Revenue	%	Revenue	%	
North America	\$3,355,428	10.28 %	\$2,455,206	8.32 %	
Europe	3,355,873	10.28 %	4,164,298	14.12 %	
Asia-Pacific	25,928,369	79.44 %	22,877,297	77.56 %	
Total	\$32,639,670	100.00 %	\$29,496,801	100.00 %	

*Revenues*

License fees

License fees for the six months ended December 31, 2016 were \$9,096,903 compared to \$1,903,045 for the six months ended December 31, 2015 reflecting an increase of \$7,193,858 with a change in constant currency of \$7,287,768. Included in the license fees are licenses provided to related parties of \$246,957 for the six months ended December 31, 2016 compared to \$nil for the same period last year. During the six months ended December 31, 2016, we increased our license revenues through sales of our NFS Ascent™ product and sales of our regional offerings in the U.S.

Maintenance fees

Maintenance fees for the six months ended December 31, 2016 were \$7,372,493 compared to \$6,442,696 for the six months ended December 31, 2015 reflecting an increase of \$929,797 with a change in constant currency of \$1,132,824. Maintenance fees include maintenance provided to related parties of \$181,976 for the six months ended December 31, 2016 compared to \$189,986 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 six months ended December 31, 2016 was \$16,170,274 compared to \$21,151,060 for the six months ended December 31, 2015 reflecting a decrease of \$4,980,786 with a change in constant currency of \$4,617,419. Included in the services revenue are services provided to related parties of \$3,379,473 for the six months ended December 31, 2016 compared to \$4,823,083 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 \$14,530,681, for the six months ended December 31, 2016 as compared with \$13,119,498 for the six months ended December 31, 2015. This is an increase of \$1,411,183 with an increase in constant currency of \$1,699,193. The gross profit percentage for the six months ended December 31, 2016 slightly increased to 44.52% from 44.48% for the six months ended December 31, 2015. The cost of sales was \$18,108,989 for the six months ended December 31, 2016 compared to \$16,377,303 for the six months ended December 31, 2015 for an increase of \$1,731,686 and on a constant currency basis an increase of \$2,104,980. As a percentage of sales, cost of sales slightly decreased from 55.52% for the six months ended December 31, 2015 to 55.48% for the six months ended December 31, 2016.

Salaries and consultant fees increased by \$1,628,492 from \$10,244,661 for the six months ended December 31, 2015 to \$11,873,153 for the six months ended December 31, 2016 and on a constant currency basis increased \$1,899,317. The increase in salaries and consultant fees is due to 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 \$2,649,636 compared to \$2,935,701 for the six months ended December 31, 2015 for a decrease of \$286,065 and on a constant currency basis a decrease of \$285,340. Depreciation and amortization expense decreased as some products became fully amortized.

### *Operating Expenses*

Operating expenses were \$14,335,246 for the six months ended December 31, 2016 compared to \$11,091,693, for the six months ended December 31, 2015 for an increase of 29.24% or \$3,243,553 and on a constant currency basis an increase of 33.15% or \$3,676,464. As a percentage of sales, it increased from 37.6% to 43.92%. The increase in operating expenses was primarily due to the increase in selling and marketing expenses of \$1,356,122 or 36.64% and on a constant currency basis an increase of \$1,551,484 or 41.92%, and an increase in general and administrative expenses of \$1,969,092 or 29.91% and on a constant currency basis an increase of \$2,189,349 or 33.26%.

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 \$8,552,609 for the six months ended December 31, 2016 compared to \$6,583,517 at December 31, 2015 for an increase of \$1,969,092 or 29.91% and on a constant currency basis an increase of \$2,189,349 or 33.26%. During the six months ended December 31, 2016, salaries increased by approximately \$2,286,101 or \$2,423,311 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 decreased by approximately \$268,636 or \$207,718 on a constant currency basis; professional services decreased by approximately \$48,373 or \$26,744 on a constant currency basis.

#### *Income from Operations*

Income from operations was \$195,435 for the six months ended December 31, 2016 compared to \$2,027,805 for the six months ended December 31, 2015. This represents a decrease in income of \$1,832,370 with a decrease in income of \$1,977,271 on a constant currency basis for the six months ended December 31, 2016 compared with the six months ended December 31, 2015. As a percentage of sales, net income from operations was 0.60% for the six months ended December 31, 2016 compared to 6.87% for the six months ended December 31, 2015.

#### *Net Loss*

Net loss was \$2,751,395 for the six months ended December 31, 2016 compared to net income of \$464,037 for the six months ended December 31, 2015. This is an increase in loss of \$3,215,432 compared to the prior year. For the six months ended December 31, 2016, net loss per basic and diluted share was \$0.25 compared to net income per basic and diluted share of \$0.05 and \$0.04 for the six months ended December 31, 2015.

#### **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 or loss 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 or loss 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 and six months ended December 31, 2016 and 2015 are as follows:

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	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Six Months Ended December 31, 2016	Six Months Ended December 31, 2015
Net Income (loss) before preferred dividend, per GAAP	\$(985,676 )	\$875,065	\$(2,751,395 )	\$464,037
Non-controlling interest	1,388,272	883,396	1,462,183	1,074,898
Income taxes	338,884	273,275	378,759	348,498
Depreciation and amortization	1,590,249	1,747,082	3,190,218	3,512,489
Interest expense	62,127	72,156	116,602	140,329
Interest (income)	(23,416 )	(35,299 )	(53,856 )	(87,411 )
EBITDA	\$2,370,440	\$3,815,675	\$2,342,511	\$5,452,840
Add back:				
Non-cash stock-based compensation	682,123	393,985	1,547,579	471,735
Adjusted EBITDA, gross	\$3,052,563	\$4,209,660	\$3,890,090	\$5,924,575
Less non-controlling interest (a)	(2,037,286 )	(1,642,461 )	(2,717,103 )	(2,697,992 )
Adjusted EBITDA, net	\$1,015,277	\$2,567,199	\$1,172,987	\$3,226,583
Weighted Average number of shares outstanding				
Basic	10,877,446	10,308,186	10,783,685	10,294,760
Diluted	11,032,938	10,548,922	10,939,177	10,535,497
Basic adjusted EBITDA	\$0.09	\$0.25	\$0.11	\$0.31
Diluted adjusted EBITDA	\$0.09	\$0.24	\$0.11	\$0.31

(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	\$1,388,272	\$883,396	\$1,462,183	\$1,074,898
Income Taxes	53,397	23,907	61,045	37,781
Depreciation and amortization	523,368	730,672	1,049,294	1,556,538
Interest expense	18,725	12,991	36,416	31,333
Interest (income)	(7,535 )	(34,947 )	(17,092 )	(51,397 )
EBITDA	\$1,976,227	\$1,616,019	\$2,591,846	\$2,649,153
Add back:				
Non-cash stock-based compensation	61,059	26,442	125,257	48,839
Adjusted EBITDA of non-controlling interest	\$2,037,286	\$1,642,461	\$2,717,103	\$2,697,992

## LIQUIDITY AND CAPITAL RESOURCES

Our cash position was \$9,505,383 at December 31, 2016, compared to \$11,557,527 at June 30, 2016.

Net cash provided by operating activities was \$69,398 for the six months ended December 31, 2016 compared to \$2,031,618 for the three months ended December 31, 2015. At December 31, 2016, we had current assets of \$40,669,421 and current liabilities of \$14,637,155. We had accounts receivable of \$10,143,870 at December 31, 2016 compared to \$15,382,407 at June 30, 2016. We had revenues in excess of billings of \$18,115,518 at December 31, 2016 compared to \$11,297,264 at June 30, 2016. During the six months ended December 31, 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 increased by \$1,579,717, from \$26,679,671 at June 30, 2016, to \$28,259,388 at December 31, 2016. The increase is due to recognition of revenue according to progress of contracts. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to \$7,273,097 and \$4,368,930, respectively at December 31, 2016.

The average days sales outstanding for the six months ended December 31, 2016 and 2015 were 151 and 100 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 \$1,637,669 for the six months ended December 31, 2016, compared to \$1,167,133 for the six months ended December 31, 2015. We had purchases of property and equipment of \$1,074,316 compared to \$1,177,443 for the comparable period last fiscal year. During the six months ended December 31, 2016, the Company purchased a 2.5% interest in eeGeo, Inc. for \$555,556 increasing its investment to 4.9%. NetSol PK also paid \$150,000 to eeGeo, Inc. in addition to providing services for investment. The Company purchased 7,500 of its common stock from open market at an average price of \$5.18 per share.

Net cash used in financing activities was \$591,114, compared to net cash provided by financing activities \$35,628 for the six months ended December 31, 2016, and 2015, respectively. The six months ended December 31, 2016 included the cash inflow of \$429,452 from the exercising of stock options and warrants. During the six months ended December 31, 2016, we had net payments from bank loans and capital leases of \$69,998 compared to \$530,733 for the six months ended December 31, 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 December 31, 2016, we had approximately \$9.5 million of cash, cash equivalents and marketable securities of which approximately \$7.87 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 \$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**

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 December 31, 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 December 31, 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 six months ended December 31, 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 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. Effective January 9, 2017, the California Court issued a preliminary order approving the settlement. A final approval hearing is scheduled for April 6, 2017.

#### **Item 1A. Risk Factors**

None.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Repurchases Made during Quarter

The repurchases provided in the table below were made during the quarter ended December 31, 2016:

Issuer Purchases of Equity Securities (1)				
Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may be Purchased Under the Plans or Programs
Nov-16	-	\$ -	-	-
Dec-16	7,500	\$ 5.18	7,500	-
Total	7,500		7,500	500,000

On November 16, 2016, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 500,000 of its shares of common stock over the next 6 months. The shares are to be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion.

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)

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**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: February 14, 2017 /s/ *Najeeb U. Ghauri*  
NAJEEB U. GHAURI  
Chief Executive Officer

Date: February 14, 2017 /s/ *Roger K. Almond*  
ROGER K. ALMOND  
Chief Financial Officer  
Principal Accounting Officer

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