NETSOL TECHNOLOGIES INC
Form 10-Q
November 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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 Incorporation or Organization)	(I.R.S. Employer NO.)

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 [X] 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 [X]

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

Yes [ ] No [X]

The issuer had 10,322,826 shares of its $.01 par value Common Stock and no Preferred Stock issued and outstanding as of November 10, 2015.

NETSOL TECHNOLOGIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	As of September 30, 2015	As of June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$10,075,324	$14,168,957
Restricted cash	90,000	90,000
Accounts receivable, net of allowance of 518,657 and 524,565	7,485,807	6,480,344
Accounts receivable, net - related party	4,409,186	3,491,899
Revenues in excess of billings	6,560,754	5,267,275
Other current assets	2,279,083	2,012,190
Total current assets	30,900,154	31,510,665
Property and equipment, net	24,053,908	25,119,634
Intangible assets, net	21,837,105	22,815,467
Goodwill	9,516,568	9,516,568
Total assets	$86,307,735	$88,962,334
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$5,030,352	$5,952,561
Current portion of loans and obligations under capitalized leases	4,241,836	3,896,353
Unearned revenues	4,302,524	4,897,327
Common stock to be issued	88,324	88,324
Total current liabilities	13,663,036	14,834,565
Long term loans and obligations under capitalized leases; less current maturities	329,834	487,492
Total liabilities	13,992,870	15,322,057
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 500,000 shares authorized;	-	-
Common stock, $.01 par value; 14,500,000 shares authorized; 10,322,826 shares issued and 10,295,547 outstanding as of September 30, 2015 and 10,307,826 shares issued and 10,280,547 outstanding as of June 30, 2015	103,228	103,078

Additional paid-in-capital	119,287,407	119,209,807
Treasury stock (27,279 shares)	(415,425)	(415,425)
Accumulated deficit	(41,137,149)	(40,726,121)
Stock subscription receivable	(1,139,672)	(1,204,603)
Other comprehensive loss	(18,130,300)	(17,167,100)
Total NetSol stockholders' equity	58,568,089	59,799,636
Non-controlling interest	13,746,776	13,840,641
Total stockholders' equity	72,314,865	73,640,277
Total liabilities and stockholders' equity	$86,307,735	$88,962,334

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

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

	For the Three Months Ended September 30,	
	2015	2014
Net Revenues:		
License fees	$1,193,354	$1,584,553
Maintenance fees	3,012,238	2,708,528
Services	6,753,873	4,249,080
Maintenance fees - related party	158,231	140,113
Services - related party	2,187,408	1,544,877
Total net revenues	13,305,104	10,227,151
Cost of revenues:		
Salaries and consultants	4,999,890	4,116,217
Travel	481,453	421,871
Depreciation and amortization	1,474,235	1,801,567
Other	938,797	674,863
Total cost of revenues	7,894,375	7,014,518
Gross profit	5,410,729	3,212,633
Operating expenses:		
Selling and marketing	1,698,404	1,132,360
Depreciation and amortization	291,172	580,773
General and administrative	3,366,047	3,675,755
Research and development cost	112,070	66,265
Total operating expenses	5,467,693	5,455,153
Loss from operations	(56,964)	(2,242,520)
Other income and (expenses)		
Loss on sale of assets	(11,873)	(11,052)
Interest expense	(68,173)	(73,093)
Interest income	52,112	57,919
Gain (loss) on foreign currency exchange transactions	(113,719)	79,220
Other income	54,314	379
Total other income (expenses)	(87,339)	53,373
Net loss before income taxes	(144,303)	(2,189,147)
Income tax provision	(75,223)	(40,076)
Net loss	(219,526)	(2,229,223)
Non-controlling interest	(191,502)	391,197
Net loss attributable to NetSol	$(411,028)	$(1,838,026)

Net loss per share:		
Net loss per common share		
Basic	$(0.04)	$(0.20)
Diluted	$(0.04)	$(0.20)
Weighted average number of shares outstanding		
Basic	10,281,335	9,213,324
Diluted	10,281,335	9,213,324

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

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

(UNAUDITED)

	For the Three Months Ended September 30,	
	2015	2014
Net loss	$(411,028)	$(1,838,026)
Other comprehensive income (loss):		
Translation adjustment	(1,248,567)	(3,026,029)
Comprehensive income (loss)	(1,659,595)	(4,864,055)
Comprehensive loss attributable to non-controlling interest	(285,367)	(1,070,475)
Comprehensive income (loss) attributable to NetSol	$(1,374,228)	$(3,793,580)

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

	For the Three Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(219,526)	$(2,229,223)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,765,407	2,382,340
Provision for bad debts	36,780	-
Loss on sale of assets	11,873	11,052
Stock issued for services	77,750	290,162
Fair market value of warrants and stock options granted	-	155,622
Changes in operating assets and liabilities:		
Accounts receivable	(1,268,570)	(5,723,728)
Accounts receivable - related party	(975,266)	(495,357)
Revenues in excess of billing	(912,509)	133,763
Other current assets	(322,533)	479,340
Accounts payable and accrued expenses	(833,638)	(326,226)
Unearned revenue	(538,259)	4,841,230
Net cash used in operating activities	(3,178,491)	(481,025)
Cash flows from investing activities:		
Purchases of property and equipment	(625,794)	(1,031,128)
Sales of property and equipment	180,258	90,841
Net cash used in investing activities	(445,536)	(940,287)
Cash flows from financing activities:		
Proceeds from sale of common stock	-	850,000
Proceeds from stock subscription receivable	64,931	-
Restricted cash	-	2,438,844
Proceeds from bank loans	437,070	109,211
Payments on capital lease obligations and loans - net	(174,385)	(2,591,334)
Net cash provided by financing activities	327,616	806,721
Effect of exchange rate changes	(797,222)	(465,548)
Net decrease in cash and cash equivalents	(4,093,633)	(1,080,139)
Cash and cash equivalents, beginning of the period	14,168,957	11,462,695
Cash and cash equivalents, end of period	$10,075,324	$10,382,556

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

Page 6

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

	For the Three Months Ended September 30,	
	2015	2014
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$64,310	$58,091
Taxes	$71,172	$28,494

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

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, healthcare, 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, 2015. 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:

<u>Wholly owned Subsidiaries</u>
NetSol Technologies Americas, Inc. (“NTA”)
NetSol Connect (Private), Ltd. (“Connect”)
NetSol Technologies Australia Pty Ltd. (“Australia”)
NetSol Technologies Europe Limited (“NTE”)
NetSol Technologies Limited (“NetSol UK”)

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

NetSol Technologies Thailand Limited (“NetSol Thai”)

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

NetSol Omni (Private) Ltd. (“Omni”)

NetSol Technologies (GmbH) (“NTG”)

Majority-owned Subsidiaries
NetSol Technologies, Ltd. ("NetSol PK")
NetSol Innovation (Private) Limited ("NetSol Innovation")
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.

New Accounting Pronouncements

In May 2014, the (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB deferred the effective date of the new revenue standard by one year, which will make it effective for the Company in the first quarter of its fiscal year ending June 30, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, Compensation — Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force) (ASU 2014-12). The guidance applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. For all entities, the amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities. The Company is currently evaluating the impact of adopting ASU 2014-12 on the Company’s results of operations or financial condition.

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

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, Income Statement – Extraordinary and Unusual items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (ASU 2015-01). The amendment eliminates from U.S. GAAP the concept of extraordinary items.

This guidance is effective for the Company in the first quarter of fiscal 2017. Early adoption is permitted and allows the Company to apply the amendment prospectively or retrospectively. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2015, FASB issued ASU No. 2015-02, (Topic 810): Amendments to the Consolidation Analysis. ASU No. 2015-02 provides amendments to respond to stakeholders' concerns about the current accounting for consolidation of certain legal entities. Stakeholders expressed concerns that GAAP might require a reporting entity to consolidate another legal entity in situations in which the reporting entity's contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity's voting rights, or the reporting entity is not exposed to a majority of the legal entity's economic benefits or obligations. ASU No. 2015-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In April 2015, FASB issued ASU No. 2015-03, (Subtopic 835-30): *Simplifying the Presentation of Debt Issuance Costs.* ASU No. 2015-03 provides guidance that will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU No. 2015-03 affects disclosures related to debt issuance costs but does not affect existing recognition and measurement guidance for these items. ASU No. 2015-03 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In April 2015, FASB issued ASU No. 2015-05, (Subtopic 350-40): *Customer's Accounting for Fees Paid in a Cloud Computing Arrangements.* ASU No. 2015-05 provides guidance on a customer's accounting for fees paid in a cloud computing arrangement, which includes software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. ASU No. 2015-05 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In September 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-16, "*Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments."* ASU No. 2015-06 simplifies the accounting for measurement-period adjustments attributable to an acquisition. Under prior guidance, adjustments to provisional amounts during the measurement period that arise due to new information regarding acquisition date circumstances must be made retrospectively with a corresponding adjustment to goodwill. The amended guidance requires an acquirer to record adjustments to provisional amounts made during the measurement period in the period that the adjustment is determined. The adjustments should reflect the impact on earnings of changes in depreciation, amortization, or other income effects, if any, as if the accounting had been completed as of the acquisition date. Additionally, amounts recorded in the current period that would have been reflected in prior reporting periods if the adjustments had been recognized as of the acquisition date must be disclosed either on the face of the income statement or in the notes to financial statements. This guidance is effective prospectively for interim and annual periods beginning after December 15, 2015 and early application is permitted. The impact of the guidance on our financial condition, results of operations and financial statement disclosures will depend on the level of acquisition activity performed by the Company.

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. All options and warrants were excluded from the diluted loss per share calculation due to their anti-dilution effect.

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

	As of September 30,	
	2015	2014
Stock Options	697,133	757,462

Warrants	163,124	163,124
	860,257	920,586

NOTE 4 – OTHER COMPREHENSIVE INCOME AND FOREIGN CURRENCY:

The accounts of NTE, NetSol UK, VLSH and VLS use the British Pound; VLSIL and NTG use the Euro; NetSol PK, Connect, Omni 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 $18,130,300 and $17,167,100 as of September 30, 2015 and June 30, 2015, respectively. During the three months ended September, 2015 and 2014, comprehensive income (loss) in the consolidated statements of operations included translation losses of $963,200 and $1,955,554, respectively.

NOTE 5 – RELATED PARTY TRANSACTIONS

NetSol-Innovation

In November 2004, the Company entered into a joint venture agreement with the Innovation Group called NetSol-Innovation (Pvt) Ltd., ("NetSol-Innovation"), a Pakistani company. NetSol-Innovation provides support services to the Innovation Group. During the three months ended September 30, 2015 and 2014, NetSol-Innovation provided services of $1,897,799 and $1,396,000, respectively. Accounts receivable at September 30, 2015 and June 30, 2015 were $4,305,403 and $3,226,733, respectively.

Investec Asset Finance

In October 2011, NTE entered into an agreement with the Investec Asset Finance to acquire VLS. NTE and VLS both provide support services to Investec. During the three months ended September 30, 2015 and 2014, NTE and VLS provided maintenance and services of $447,840 and $288,990, respectively. Accounts receivable at September 30, 2015 and June 30, 2015 were $103,783 and $265,166, respectively.

NOTE 6 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of September 30, 2015	As of June 30, 2015
Prepaid Expenses	$535,618	$452,314
Advance Income Tax	918,783	895,075
Employee Advances	82,120	36,816
Security Deposits	204,642	195,336
Tender Money Receivable	32,079	26,435
Other Receivables	384,810	322,647
Other Assets	121,031	83,567
Total	$2,279,083	$2,012,190

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	As of September 30, 2015	As of June 30, 2015
Office Furniture and Equipment	$3,014,370	$3,104,375
Computer Equipment	25,751,197	25,911,422
Assets Under Capital Leases	1,849,516	1,887,767

Building	8,639,818	8,743,130
Land	2,422,609	2,451,577
Capital Work In Progress	267,438	392,243
Autos	1,009,618	943,873
Improvements	317,943	204,779
Subtotal	43,272,509	43,639,166
Accumulated Depreciation	(19,218,601)	(18,519,532)
Property and Equipment, Net	$24,053,908	$25,119,634

For the three months ended September 30, 2015 and 2014, depreciation expense totaled $1,063,889, and $1,368,707, respectively. Of these amounts, $772,717, and $918,892, respectively, is reflected in cost of revenues.

Following is a summary of fixed assets held under capital leases as of September 30, 2015 and June 30, 2015:

	As of September 30, 2015	As of June 30, 2015
Computers and Other Equipment	$577,929	$590,625
Furniture and Fixtures	409,900	414,023
Vehicles	861,687	883,119
Total	1,849,516	1,887,767
Less: Accumulated Depreciation - Net	(576,314)	(577,215)
	$1,273,202	$1,310,552

NOTE 8 - INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of September 30, 2015	As of June 30, 2015
Product Licenses - Cost	$48,632,368	$48,632,368
Additions	-	-
Effect of Translation Adjustment	(2,828,772)	(2,325,008)
Accumulated Amortization	(23,966,491)	(23,491,893)
Net Balance	$21,837,105	$22,815,467

(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 $21,837,105 will be amortized over the next 8.5 years. Amortization expense for the three months ended September 30, 2015 and 2014 was $701,518 and $882,675, respectively.

(B) Future Amortization

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

Year ended:	
September 30, 2016	$2,771,701
September 30, 2017	2,771,701
September 30, 2018	2,771,701
September 30, 2019	2,771,701
September 30, 2020	2,771,701
Thereafter	7,978,599
	$21,837,105

NOTE 9 – GOODWILL

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

	As of September 30, 2015	As of June 30, 2015
NetSol PK	$1,166,610	$1,166,610
NTE	3,471,814	3,471,814
VLS	214,044	214,044
NTA	4,664,100	4,664,100
Total	$9,516,568	$9,516,568

The Company tests for goodwill impairment at each reporting unit. There was no goodwill impairment for the period ended September 30, 2015.

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of September 30, 2015	As of June 30, 2015
Accounts Payable	$1,789,681	$1,514,841
Accrued Liabilities	2,801,355	3,978,435
Accrued Payroll	14,256	8,974
Accrued Payroll Taxes	255,621	282,572
Interest Payable	39,710	41,556
Taxes Payable	26,503	22,957
Other Payable	103,226	103,226
Total	$5,030,352	$5,952,561

NOTE 11 – DEBTS

Notes payable and capital leases consisted of the following:

		As of September 30, 2015		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$20,157	$20,157	$ -
Bank Overdraft Facility	(2)	427,724	427,724	-
HSBC Loan	(3)	351,449	335,218	16,231
Loan Payable Bank	(4)	2,858,776	2,858,776	-
Loan From Related Party	(5)	128,567	128,567	-
		3,786,673	3,770,442	16,231
Subsidiary Capital Leases	(6)	784,997	471,394	313,603
		$4,571,670	$4,241,836	$ 329,834

		As of June 30, 2015		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$79,872	$79,872	$ -
Bank Overdraft Facility	(2)	-	-	-
HSBC Loan	(3)	447,161	322,349	124,812
Loan Payable Bank	(4)	2,892,961	2,892,961	-
Loan From Related Party	(5)	129,979.00	129,979.00	-
		3,549,973	3,425,161	124,812
Subsidiary Capital Leases	(6)	833,872	471,192	362,680
		$4,383,845	$3,896,353	$ 487,492

(1) The Company finances Directors' and Officers' ("D&O") liability insurance as well as Errors and Omissions ("E&O") liability insurance, for which the total balances are renewed on an annual basis and as such are recorded in current maturities. The interest rate on the insurance financing was 0.49% as of September 30, 2015 and June 30, 2015, respectively.

(2) During the year ended June 30, 2008, the Company's subsidiary, NTE entered into an overdraft facility with HSBC Bank plc whereby the bank would cover any overdrafts up to £300,000, or approximately $454,959. The annual interest rate was 4.75% as of September 30, 2015 and June 30, 2015, respectively.

This overdraft facility requires that the aggregate amount of invoiced trade debtors (net of provisions for bad and doubtful debts and excluding intra-group debtors) of NTE, not exceeding 90 days old, will not be less than an amount equal to 200% of the facility. As of September 30, 2015, NTE was in compliance with this covenant.

(3) In October 2011, the Company's subsidiary, NTE, entered into a loan agreement with HSBC Bank to finance the acquisition of 51% of a controlling interest in Virtual Leasing Services Limited. HSBC Bank guaranteed the loan up to a limit of £1,000,000, or approximately $1,516,530 for a period of 5 years with monthly payments of £18,420, or approximately $27,934. The interest rate was 4% which is 3.5% above the bank sterling base rate. The loan is securitized against debenture comprising of fixed and floating charges over all the assets and undertakings of NTE including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future. Interest expense for the three months ended September 30, 2015 and 2014 was $7,850 and $16,702, respectively.

This facility requires that NTE's adjusted tangible net worth would not be less than £600,000. For this purpose, adjusted tangible net worth means shareholders' funds less intangible assets plus non-redeemable preference shares. In addition, NTE's cash debt service coverage would not fall below 150% of the aggregate debt service cost. As of September 30, 2015, NTE was in compliance with this covenant.

(4) 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. 300,000,000 or $2,858,776. The interest rate for the loans was 4.5% and 7.5% at September 30, 2015 and June 30, 2015, respectively. Interest expense for the three months ended September 30, 2015 and 2014 was $41,006 and $35,001, respectively.

Export refinance facility from Askari Bank Limited amounting to Rupees 300 million ($2.86 million) require NetSol PK to maintain a long term debt equity ratio of 60:40 and the current ratio of 1:1. As of September 30, 2015, NetSol PK was in compliance with this covenant.

(5) In March 2014, the Company's subsidiary, VLS, entered into a loan agreement with Investec. The loan amount was £150,000, or approximately $227,480, for a period of two years with annual payments of £75,000, or approximately $113,740. The interest rate was 3.13%. As of September 30, 2015, VLS has used this facility up to $128,567 including interest due, and was shown as a current maturity.

(6) The Company leases various fixed assets under capital lease arrangements expiring in various years through 2018. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are secured by the assets themselves. Depreciation of assets under capital leases is included in depreciation expense for the three months ended September 30, 2015 and 2014.

Following is the aggregate minimum future lease payments under capital leases as of September 30, 2015:

	Amount
Minimum Lease Payments	
Due FYE 9/30/16	$523,222
Due FYE 9/30/17	264,852
Due FYE 9/30/18	66,338
Total Minimum Lease Payments	854,412
Interest Expense relating to future periods	(69,415)
Present Value of minimum lease payments	784,997
Less: Current portion	(471,394)
Non-Current portion	$313,603

NOTE 12 - STOCKHOLDERS' EQUITY

During the three months ended September 30, 2015, the Company issued 15,000 shares of common stock for services rendered by officers and employees of the Company. These shares were valued at the fair market value of $77,750.

NOTE 13 - INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

Common stock purchase options and warrants consisted of the following:

	# of shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregated Intrinsic Value
OPTIONS:				
Outstanding and exercisable, June 30, 2015	708,133	$ 6.84	1.22	$ 572,352
Granted	-	-		
Exercised	-	-		
Expired / Cancelled	(11,000)	$ 23.41		
Outstanding and exercisable, September 30, 2015	697,133	$ 6.58	1	$ 513,765
WARRANTS:				
Outstanding and exercisable, June 30, 2015	163,124	$ 7.29	1.22	$ -
Granted / adjusted	-	-		
Exercised	-	-		
Expired	-	-		
Outstanding and exercisable, September 30, 2015	163,124	$ 7.29	0.97	$ 222

The following table summarizes information about stock options and warrants outstanding and exercisable at September 30, 2015.

Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
OPTIONS:			
$0.10 - $9.90	634,133	1.03	$ 4.84
$10.00 - $19.90	8,000	0.82	$ 17.69
$20.00 - $29.90	55,000	0.66	$ 25.00
Totals	697,133	1.00	$ 6.58
WARRANTS:			
$5.00 - $7.50	163,124	0.97	$ 7.29

Totals	163,124	0.97	$ 7.29

The following table summarizes stock grants awarded as compensation:

	# of shares	Weighted Average Grant Date Fair Value ($)
Unvested, June 30, 2014	232,000	$ 3.88
Granted	113,275	$ 3.26
Vested	(338,608)	$ 3.60
Unvested, June 30, 2015	6,667	$ 6.00
Granted	100,000	$ 5.02
Vested	(15,000)	$ 4.40
Unvested, September 30, 2015	91,667	$ 5.06

For the three months ended September 30, 2015 and 2014, the Company recorded compensation expense of $77,750 and $290,162, respectively. The compensation expense related to the unvested stock grants as of September 30, 2015 was $464,252 which will be recognized during the fiscal years of 2016 and 2017.

NOTE 14 – 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 three 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 a consolidated complaint, which asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 premised on allegedly false and misleading statements regarding the Company's next generation product, NFS Ascent, and whether it was truly available on a global basis when stated. After several successful motions by the Company, the Court granted the plaintiff a final opportunity to amend the complaint on a narrowed basis. The amended complaint was filed which contained a much narrowed class period from October 2013 to November 8, 2013, eliminated all but one of the individual defendants from the suit, and limited the scope of the alleged claims. The Company has filed an answer to this final amended complaint.

The Company continues to believe the amended allegations are meritless and intends to vigorously defend all claims asserted. The Company has engaged counsel and has liability insurance. Given the early stage of the litigation, however, at this time the Company is unable to form a professional judgment that an unfavorable outcome is either probable or remote, and it is not possible to assess whether or not the outcome of these proceedings will or will not have a material adverse effect on the Company.

On October 27, 2015, a purported shareholder derivative lawsuit was filed in the Los Angeles Superior Court entitled *Caleb McArthur v Najeeb U. Ghauri, et al.*, L.A.S.C. Case No. BC599020, naming current and former members of the Company's board of directors as defendants. The complaint alleges that the defendants breached fiduciary duties by failing to implement internal corporate controls and is 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. Given the early stage of the litigation, the Company is unable to form a professional judgment that an unfavorable outcome is either probable or remote

NOTE 15 – OPERATING SEGMENTS

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

The following table presents a summary of identifiable assets as of September 30, 2015 and June 30, 2015:

	As of September 30, 2015	As of June 30, 2015
Identifiable assets:		
Corporate headquarters	$3,732,708	$4,896,334
North America	7,163,840	7,162,846
Europe	6,511,940	6,631,945
Asia - Pacific	68,899,247	70,271,209
Consolidated	$86,307,735	$88,962,334

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

	For the Three Months Ended September 30,	
	2015	2014
Revenues from unaffiliated customers:		
North America	$1,502,468	$1,166,777
Europe	1,498,531	1,561,023
Asia - Pacific	7,958,466	5,814,361
	10,959,465	8,542,161
Revenue from affiliated customers		
Europe	447,840	288,990
Asia - Pacific	1,897,799	1,396,000
	2,345,639	1,684,990
Consolidated	$13,305,104	$10,227,151
Intercompany revenue		
Europe	$136,786	$130,528
Asia - Pacific	944,189	281,119
Eliminated	$1,080,975	$411,647

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