NETSOL TECHNOLOGIES INC
Form 10-Q
February 11, 2016

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 December 31, 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 10,458,250 shares of its $.01 par value Common Stock and no Preferred Stock issued and outstanding as of February 8, 2016.

NETSOL TECHNOLOGIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	As of December 31, 2015	As of June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$13,986,773	$14,168,957
Restricted cash	90,000	90,000
Accounts receivable, net of allowance of $487,937 and $524,565	6,025,334	6,480,344
Accounts receivable, net - related party	5,749,523	3,491,899
Revenues in excess of billings	5,061,568	5,267,275
Other current assets	2,671,613	2,012,190
Total current assets	33,584,811	31,510,665
Property and equipment, net	23,251,920	25,119,634
Intangible assets, net	20,877,711	22,815,467
Goodwill	9,516,568	9,516,568
Total assets	$87,231,010	$88,962,334
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$5,907,103	$5,952,561
Current portion of loans and obligations under capitalized leases	3,767,193	3,896,353
Unearned revenues	3,546,819	4,897,327
Common stock to be issued	88,324	88,324
Total current liabilities	13,309,439	14,834,565
Long term loans and obligations under capitalized leases; less current maturities	273,109	487,492
Total liabilities	13,582,548	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; 10,418,350 shares issued and 10,391,071 outstanding as of December 31, 2015 and 10,307,826 shares issued and 10,280,547 outstanding as of June 30, 2015	104,184	103,078
Additional paid-in-capital	119,890,798	119,209,807

Treasury stock (27,279 shares)	(415,425)	(415,425)
Accumulated deficit	(40,262,084)	(40,726,121)
Stock subscription receivable	(1,139,672)	(1,204,603)
Other comprehensive loss	(18,546,296)	(17,167,100)
Total NetSol stockholders’ equity	59,631,505	59,799,636
Non-controlling interest	14,016,957	13,840,641
Total stockholders’ equity	73,648,462	73,640,277
Total liabilities and stockholders’ equity	$87,231,010	$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 December 31,		For the Six Months Ended December 31,	
	2015	2014	2015	2014
Net Revenues:				
License fees	$709,691	$2,100,715	$1,903,045	$3,685,268
Maintenance fees	3,240,472	3,276,125	6,252,710	5,984,653
Services	9,574,104	5,378,584	16,327,977	9,627,664
Maintenance fees - related party	31,755	53,462	189,986	193,575
Services - related party	2,635,675	1,543,718	4,823,083	3,088,595
Total net revenues	16,191,697	12,352,604	29,496,801	22,579,755
Cost of revenues:				
Salaries and consultants	4,925,565	4,298,900	9,925,455	8,415,117
Travel	754,009	590,353	1,235,462	1,012,224
Depreciation and amortization	1,461,466	1,800,753	2,935,701	3,602,320
Other	1,022,682	662,046	1,961,479	1,336,909
Total cost of revenues	8,163,722	7,352,052	16,058,097	14,366,570
Gross profit	8,027,975	5,000,552	13,438,704	8,213,185
Operating expenses:				
Selling and marketing	2,002,990	1,574,955	3,701,394	2,707,315
Depreciation and amortization	285,616	438,003	576,788	1,018,776
General and administrative	3,536,676	3,911,754	6,902,723	7,587,510
Research and development cost	117,924	80,437	229,994	146,702
Total operating expenses	5,943,206	6,005,149	11,410,899	11,460,303
Income (loss) from operations	2,084,769	(1,004,597)	2,027,805	(3,247,118)
Other income and (expenses)				
Loss on sale of assets	(2,333)	(69,543)	(14,206)	(80,595)
Interest expense	(72,156)	(47,265)	(140,329)	(120,358)
Interest income	35,299	106,078	87,411	163,997
Loss on foreign currency exchange transactions	(134,527)	(421,082)	(248,246)	(341,862)
Other income	120,684	18,162	174,998	18,539
Total other income (expenses)	(53,033)	(413,650)	(140,372)	(360,279)
Net income (loss) before income taxes	2,031,736	(1,418,247)	1,887,433	(3,607,397)
Income tax provision	(273,275)	(87,683)	(348,498)	(127,759)

Net income (loss)	1,758,461	(1,505,930)	1,538,935	(3,735,156)
Non-controlling interest	(883,396)	138,764	(1,074,898)	529,961
Net income (loss) attributable to NetSol	$875,065	$(1,367,166)	$464,037	$(3,205,195)
Net income (loss) per common share				
Basic	$0.08	$(0.14)	$0.05	$(0.34)
Diluted	$0.08	$(0.14)	$0.04	$(0.34)
Weighted average number of shares outstanding				
Basic	10,308,186	9,654,334	10,294,760	9,433,829
Diluted	10,548,922	9,654,334	10,535,496	9,433,829

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,	
	2015	2014	2015	2014
Net income (loss)	$875,065	$(1,367,166)	$464,037	$(3,205,195)
Other comprehensive income (loss):				
Translation adjustment	(665,906)	1,116,563	(1,914,473)	(1,909,466)
Comprehensive income (loss)	209,159	(250,603)	(1,450,436)	(5,114,661)
Comprehensive income (loss) attributable to non-controlling interest	(249,910)	390,434	(535,277)	(680,041)
Comprehensive income (loss) attributable to NetSol	$459,069	$(641,037)	$(915,159)	$(4,434,620)

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,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	$1,538,935	$(3,735,156)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,512,489	4,621,096
Provision for bad debts	37,043	-
Loss on sale of assets	14,206	80,595
Stock issued for services	326,019	606,536
Fair market value of warrants and stock options granted	145,716	311,244
Changes in operating assets and liabilities:		
Accounts receivable	111,967	(2,279,774)
Accounts receivable - related party	(2,383,828)	40,907
Revenues in excess of billing	535,937	(765,672)
Other current assets	(758,802)	286,838
Accounts payable and accrued expenses	142,008	59
Unearned revenue	(1,190,072)	4,857,469
Net cash provided by operating activities	2,031,618	4,024,142
Cash flows from investing activities:		
Purchases of property and equipment	(1,177,443)	(1,772,866)
Sales of property and equipment	357,933	179,904
Purchase of non-controlling interest in subsidiaries	(347,623)	(577,222)
Net cash used in investing activities	(1,167,133)	(2,170,184)
Cash flows from financing activities:		
Proceeds from sale of common stock	64,931	1,610,000
Proceeds from the exercise of stock options and warrants	194,680	116,400
Restricted cash	-	2,438,844
Dividend paid by subsidiary to non-controlling interest	-	(780,106)
Proceeds from bank loans	306,750	57,405
Payments on capital lease obligations and loans - net	(530,733)	(2,867,974)
Net cash provided by financing activities	35,628	574,569
Effect of exchange rate changes	(1,082,297)	(404,696)
Net increase (decrease) in cash and cash equivalents	(182,184)	2,023,831
Cash and cash equivalents, beginning of the period	14,168,957	11,462,695
Cash and cash equivalents, end of period	13,986,773	13,486,526

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

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

	For the Six Months Ended December 31,	
	2015	2014
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$132,764	$107,418
Taxes	$156,737	$74,850

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

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to the 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.

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 Unites States. Balances at financial institutions within certain foreign countries are not covered by insurance. As of December 31, 2015 and June 30, 2015, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately $11,474,155 and $8,969,443, respectively. The Company has not experienced any losses in such accounts.

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. Also, due to the current economic conditions in China and challenges being faced by the Chinese economy, the Company may face a risk of reduction in future revenue growth and non-collection of receivables from the customers in China.

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.

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

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

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, 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

	For the three months ended December 31, 2014			For the six months ended December 31, 2014		
	Net Loss	**Shares**	**Per Share**	**Net Loss**	**Shares**	**Per Share**
Basic loss per share:						
Net loss available to common shareholders	$(1,367,166)	9,654,334	$(0.14)	$(3,205,195)	9,433,829	$(0.34)
Effect of dilutive securities						
Stock options		-	-	-	-	-
Warrants		-	-	-	-	-
Diluted loss per share	$(1,367,166)	9,654,334	$(0.14)	$(3,205,195)	9,433,829	$(0.34)

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,		For the Six Months Ended December 31,	
	2015	2014	2015	2014
Stock Options	-	727,462	-	727,462
Warrants	-	163,124	-	163,124
	-	890,586	-	890,586

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 $18,546,296 and $17,167,100 as of December 31, 2015 and June 30, 2015, respectively. During the three and six months ended December 31, 2015, comprehensive income (loss) in the consolidated statements of operations included translation loss of $415,996 and $1,379,196, respectively. During the three and six months ended December 31, 2014, comprehensive income (loss) in the consolidated statements of operations included translation income of $726,129 and a loss of $1,229,425, 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 and six months ended December 31, 2015, NetSol-Innovation provided services of $2,128,727 and $4,026,526, respectively. During the three and six months ended December 31, 2014, NetSol-Innovation provided services of $1,354,476 and $2,750,476, respectively. Accounts receivable at December 31, 2015 and June 30, 2015 were $5,364,128 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 and six months ended December 31, 2015, NTE and VLS provided maintenance and services of $538,703 and $986,543, respectively. During the three and six months ended December 31, 2014, NTE and VLS provided maintenance and services of $242,704 and $531,694, respectively. Accounts receivable at December 31, 2015 and June 30, 2015 were $385,395 and $265,166, respectively.

NOTE 6 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of December 31, 2015	As of June 30, 2015
Prepaid Expenses	$472,452	$452,314
Advance Income Tax	1,002,013	895,075
Employee Advances	121,247	36,816
Security Deposits	201,518	195,336
Tender Money Receivable	33,086	26,435
Other Receivables	556,519	322,647
Other Assets	284,778	83,567
Total	$2,671,613	$2,012,190

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	As of December 31, 2015	As of June 30, 2015
Office Furniture and Equipment	$3,203,248	$3,104,375

Computer Equipment	25,545,848	25,911,422
Assets Under Capital Leases	1,859,806	1,887,767
Building	8,717,470	8,743,130
Land	2,393,866	2,451,577
Capital Work In Progress	162,274	392,243
Autos	981,035	943,873
Improvements	382,451	204,779
Subtotal	43,245,998	43,639,166
Accumulated Depreciation	(19,994,078)	(18,519,532)
Property and Equipment, Net	$23,251,920	$25,119,634

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. For the three and six months ended December 31, 2014, depreciation expense totaled $1,360,652 and $2,729,359, respectively. Of these amounts, $932,063 and $1,850,955, respectively, are reflected in cost of revenues.

Following is a summary of fixed assets held under capital leases as of December 31, 2015 and June 30, 2015:

	As of December 31, 2015	As of June 30, 2015
Computers and Other Equipment	$520,993	$590,625
Furniture and Fixtures	405,809	414,023
Vehicles	933,004	883,119
Total	1,859,806	1,887,767
Less: Accumulated Depreciation - Net	(600,457)	(577,215)
	$1,259,349	$1,310,552

NOTE 8 – INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of December 31, 2015	As of June 30, 2015
Product Licenses - Cost	$48,632,368	$48,632,368
Additions	-	-
Effect of Translation Adjustment	(3,295,489)	(2,325,008)
Accumulated Amortization	(24,459,168)	(23,491,893)
Net Balance	$20,877,711	$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 $20,877,711 will be amortized over the next 8.25 years. Amortization expense for the three and six months ended December 31, 2015 was $686,866 and $1,388,384, respectively. Amortization expense for the three and six months ended December 31, 2014 was $868,690 and $1,751,365, respectively.

(B) Future Amortization

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

Year ended:	
December 31, 2016	$2,738,817
December 31, 2017	2,738,817
December 31, 2018	2,738,817
December 31, 2019	2,738,817
December 31, 2020	2,738,817
Thereafter	7,183,626
	$20,877,711

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 December 31, 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 December 31, 2015.

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of December 31, 2015	As of June 30, 2015
Accounts Payable	$1,346,547	$1,514,841
Accrued Liabilities	4,006,593	3,978,435
Accrued Payroll	9,682	8,974
Accrued Payroll Taxes	250,040	282,572
Interest Payable	32,091	41,556
Taxes Payable	158,924	22,957
Other Payable	103,226	103,226
Total	$5,907,103	$5,952,561

NOTE 11 – DEBTS

Notes payable and capital leases consisted of the following:

		As of December 31, 2015		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$89,741	$89,741	$ -
HSBC Loan	(2)	264,135	264,135	-
Loan Payable Bank	(3)	2,824,859	2,824,859	-
Loan From Related Party	(4)	128,647	128,647	-
		3,307,382	3,307,382	-
Subsidiary Capital Leases	(5)	732,920	459,811	273,109
		$4,040,302	$3,767,193	$ 273,109

		As of June 30, 2015		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$79,872	$79,872	$ -
HSBC Loan	(2)	447,161	322,349	124,812
Loan Payable Bank	(3)	2,892,961	2,892,961	-
Loan From Related Party	(4)	129,979	129,979	-
		3,549,973	3,425,161	124,812
Subsidiary Capital Leases	(5)	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 0.35% and 0.49% as of December 31, 2015 and June 30, 2015, respectively.

(2) 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 $1,480,166 for a period of 5 years with monthly payments of £18,420, or approximately $27,265. 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, 2015 was $1,161 and $9,011, respectively. Interest expense for the three and six months ended December 31, 2014 was $13,248 and $29,950, 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 December 31, 2015, NTE was in compliance with this covenant.

(3) The Company's subsidiary, NetSol PK, has an export refinance facility with Askari Bank Limited, secured by NetSol PK's assets. This is a revolving loan that matures every six months. Total facility amount is Rs. 300,000,000 or approximately $2,824,859. The interest rate for the loans was 4.5% and 7.5% at December 31, 2015 and June 30, 2015, respectively. Interest expense for the three and six months ended December 31, 2015 was $36,980 and $77,986, respectively. Interest expense for the three and six months ended December 31, 2014 was $37,068 and $72,775, respectively.

Export refinance facility from Askari Bank Limited amounting to Rupees 300 million ($2.82 million) require NetSol PK to maintain a long term debt equity ratio of 60:40 and the current ratio of 1:1. As of December 31, 2015, NetSol PK was in compliance with this covenant.

(4) In March 2014, the Company's subsidiary, VLS, entered into a loan agreement with Investec. The loan amount was £150,000, or approximately $222,025, for a period of two years with annual payments of £75,000, or approximately $111,012. The interest rate was 3.13%. As of December 31, 2015, VLS has used this facility up to $128,647 including interest due, and was shown as a current maturity.

(5) 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 and six months ended December 31, 2015 and 2014.

Following is the aggregate minimum future lease payments under capital leases as of December 31, 2015:

	Amount
Minimum Lease Payments	
Due FYE 12/31/16	$505,924
Due FYE 12/31/17	225,972
Due FYE 12/31/18	62,725
Total Minimum Lease Payments	794,621
Interest Expense relating to future periods	(61,701)
Present Value of minimum lease payments	732,920
Less: Current portion	(459,811)
Non-Current portion	$273,109

NOTE 12 – STOCKHOLDERS' EQUITY

During the six months ended December 31, 2015, the Company issued 22,500 shares of common stock for services rendered by officers and employees of the Company. These shares were valued at the fair market value of $118,025.

During the six months ended December 31, 2015, the Company issued 15,000 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 $76,352.

During the six months ended December 31, 2015, the Company issued 26,000 shares of its common stock to employees pursuant to the terms of their employment agreements valued at $131,642.