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:		
Corporate headquarters	$(713,650)	$(692,556)
North America	376,714	102,073
Europe	(194,581)	(120,144)
Asia - Pacific	311,991	(1,518,596)
Consolidated	$(219,526)	$(2,229,223)

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

	2015	2014
Capital expenditures:		
Corporate headquarters	$ -	$ 1,786
North America	22,677	4,866
Europe	43,819	42,918
Asia - Pacific	559,298	981,558
Consolidated	$ 625,794	$ 1,031,128

NOTE 16 – NON-CONTROLLING INTEREST IN SUBSIDIARY

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

SUBSIDIARY	Non Controlling Interest %		Non-Controlling Interest at September 30, 2015
NetSol PK	34.90	%	$ 11,000,812
NetSol-Innovation	49.90	%	2,411,722
VLS, VLHS & VLSIL Combined	49.00	%	334,242
Total			$ 13,746,776

SUBSIDIARY	Non Controlling Interest %		Non-Controlling Interest at June 30, 2015
NetSol PK	34.90	%	$ 11,411,954
NetSol-Innovation	49.90	%	2,035,548
VLS, VLHS & VLSIL Combined	49.00	%	393,139
Total			$ 13,840,641

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

The following discussion is intended to assist in an understanding of the Company's financial position and results of operations for the three months ended September 30, 2015. 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, 2015, 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 Ascent™ 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, Bangkok, Beijing and Sydney

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

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

NFS Ascent™

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

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

The following discussion is intended to assist in an understanding of NetSol's financial position and results of operations for the three months ended September 30, 2015. It should be read together with our condensed consolidated financial statements and related notes included herein.

A few of NetSol's major successes achieved in the first three months of fiscal year 2016 were:

- Signed two agreements with leading auto captive finance companies in China for the implementation of NFS™, the Company's legacy system.
- Went live with NFS Ascent™ re-finance system at an Indonesian customer.
- Established a model office for a prospective NFS Ascent™ customer.
- Upgraded multiple existing clients to new LeasePak modules.

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

Management has identified the following material trends affecting NetSol.

Positive trends:

- Improving U.S. economy generally, and particularly in the auto and banking markets.
- China to invest $46 billion in Pakistan on energy and infrastructure projects.
- According to IHS Automotive research, US Auto manufactures estimate nearly 17 million units of new car sales in 2015, the highest in a decade.
- Slowly improving economic environment in the U.K. and major European economies.
- New emerging markets and IT destinations in Thailand, Malaysia, Indonesia, China and Australia.
- Continued interest from multinational auto captives, global companies and existing clients in NetSol Ascent™.
- Higher caliber and quality talents joining NetSol, globally.

Negative trends:

- Geopolitical unrest in the Middle East and potential terrorism and the disruption risk it creates.
- Restricted liquidity and financial burden due to tighter internal processes and limited budgets might cause delays in the receivables from some clients.
- The threats of conflict between the U.S. and Middle East region could potentially create volatility in oil prices, causing readjustments of corporate budgets and consumer spending slowing global auto sales.
- Continued conflicts in Afghanistan could increase the migration of both refugees and extremists to Pakistan, thus creating domestic and regional challenges.
- Political challenges in Pakistan affecting the economy and image of the country.

CHANGES IN FINANCIAL CONDITION

Quarter Ended September 30, 2015 compared to the Quarter Ended September 30, 2014

Net revenues for the quarter ended September 30, 2015 and 2014 are broken out among the segments as follows:

	2015 Revenue	%	2014 Revenue	%
North America	1,502,468	11.29 %	1,166,777	11.41 %
Europe	1,946,371	14.63 %	1,850,013	18.09 %
Asia-Pacific	9,856,265	74.08 %	7,210,361	70.50 %
Total	$13,305,104	100.00%	$10,227,151	100.00%

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the quarter ended September 30, 2015 and 2014 as a percentage of revenues.

	For the Three Months Ended September 30, 2015	%	2014	%
Net Revenues:				
License fees	$1,193,354	8.97 %	$1,584,553	15.49 %
Maintenance fees	3,012,238	22.64 %	2,708,528	26.48 %
Services	6,753,873	50.76 %	4,249,080	41.55 %
Maintenance fees - related party	158,231	1.19 %	140,113	1.37 %
Services - related party	2,187,408	16.44 %	1,544,877	15.11 %
Total net revenues	13,305,104	100.00 %	10,227,151	100.00 %
Cost of revenues:				
Salaries and consultants	4,999,890	37.58 %	4,116,217	40.25 %
Travel	481,453	3.62 %	421,871	4.13 %
Depreciation and amortization	1,474,235	11.08 %	1,801,567	17.62 %
Other	938,797	7.06 %	674,863	6.60 %
Total cost of revenues	7,894,375	59.33 %	7,014,518	68.59 %
Gross profit	5,410,729	40.67 %	3,212,633	31.41 %
Operating expenses:				
Selling and marketing	1,698,404	12.77 %	1,132,360	11.07 %
Depreciation and amortization	291,172	2.19 %	580,773	5.68 %
General and administrative	3,366,047	25.30 %	3,675,755	35.94 %
Research and development cost	112,070	0.84 %	66,265	0.65 %
Total operating expenses	5,467,693	41.09 %	5,455,153	53.34 %
Loss from operations	(56,964)	-0.43 %	(2,242,520)	-21.93 %
Other income and (expenses)				
Loss on sale of assets	(11,873)	-0.09 %	(11,052)	-0.11 %
Interest expense	(68,173)	-0.51 %	(73,093)	-0.71 %
Interest income	52,112	0.39 %	57,919	0.57 %
Gain (loss) on foreign currency exchange transactions	(113,719)	-0.85 %	79,220	0.77 %
Other income	54,314	0.41 %	379	0.00 %
Total other income (expenses)	(87,339)	-0.66 %	53,373	0.52 %
Net loss before income taxes	(144,303)	-1.08 %	(2,189,147)	-21.41 %
Income tax provision	(75,223)	-0.57 %	(40,076)	-0.39 %
Net loss	(219,526)	-1.65 %	(2,229,223)	-21.80 %
Non-controlling interest	(191,502)	-1.44 %	391,197	3.83 %
Net loss attributable to NetSol	$(411,028)	-3.09 %	$(1,838,026)	-17.97 %

Page 23

Revenues

License fees

License fees for the three months ended September 30, 2015, were $1,193,354 compared to $1,584,553 for the three months ended September 30, 2014, reflecting a decrease of $391,199. During the quarter ended September 30, 2015, the Company recognized a certain portion of license revenue from the NFS Ascent™ project which was signed during the last fiscal year. The license revenue was recognized on percentage of completion based on the services delivered to the customer. The Company has also recognized license revenue from one customer against the implementation of its legacy product at customer site in China. The Company also issued additional licenses for its LeasePak product.

Maintenance fees

Maintenance fees for the three months ended September 30, 2015, were $3,170,469 compared to $2,848,641 for the three months ended September 30, 2014, reflecting an increase of $321,828. Included in the maintenance fee are maintenance provided to related parties of $158,231 for the three months ended September 30, 2015 compared to $140,113 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 2015 and into fiscal year 2016. We anticipate maintenance fees to remain relatively stable until we are able to license NFS Ascent™ to new customers.

Services

Services revenue for the three months ended September 30, 2015 were $8,941,281 compared to $5,793,957 for the three months ended September 30, 2014 reflecting an increase of $3,147,324. Included in the services revenue are services provided to related parties of $2,187,408 for the three months ended September 30, 2015 compared to $1,544,877 for the same period last year. The increase is due to services provided to new customers both for the implementation of the legacy systems and for the implementation of NFS Ascent™ as well as additional services provided to existing customers on account of customization and enhancement requests. 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. Moving forward, with the implementation of new projects of NFS Ascent™, we anticipate this element of our revenue to increase more compared to the license fee.

Gross Profit

The gross profit was $5,410,729, for the three months ended September 30, 2015 compared with $3,212,633 for the three months ended September 30, 2014. This is an increase of 68.42% or $2,198,096. The gross profit percentage for the three months ended September 30, 2015 also increased to 40.67% from 31.4% for the three months ended September 30, 2014. The increase in the gross profit is mainly due to the increase in revenues. The cost of sales was $7,894,375 for the three months ended September 30, 2015 compared to $7,014,518 for the three months ended September 30, 2014. As a percentage of sales, cost of sales decreased from 68.59% for the three months ended September 30, 2014 to 59.33% for the three months ended September 30, 2015.

Salaries and consultant fees increased by $883,673 from $4,116,217 for the three months ended September 30, 2014 to $4,999,890 for the three months ended September 30, 2015. The increase in salaries and consultant fees is due to the hiring and training of technical employees at key locations including Pakistan, Thailand, China, Europe and North America as we anticipate new projects associated with NFS Ascent™. As a percentage of sales, salaries and consultant expense decreased from 40.25% for the three months ended September 30, 2014 to 37.58% for the three months ended September 30, 2015.

Depreciation and amortization expense decreased to $1,474,235 compared to $1,801,567 for the three months ended September 30, 2014, or a decrease of $327,332. Depreciation and amortization expense decreased as products became fully amortized.

Operating Expenses

Operating expenses were $5,467,693 for the three months ended September 30, 2015, compared to $5,455,153, for the three months ended September 30, 2014, or an increase of 0.23% or $12,540. As a percentage of sales, it decreased from 53.34% to 41.09%. This slight increase in operating expenses was a mix of increase in selling and marketing expenses of $566,044 or 49.99%, a decrease in general and administrative expenses of $309,708 or 8.43% and decrease in depreciation expense of $289,601 or 49.86%. The increase in selling and marketing expenses is due to the hiring of additional employees and the increase in marketing efforts for NFS Ascent™. The decrease in general and administrative expenses is primarily due to reduction of legal and professional services.

Loss from Operations

Loss from operations was $56,964 for the three months ended September 30, 2015, compared to $2,242,520 for the three months ended September 30, 2014. This represents a decrease of $2,185,556 for the three months ended September 30, 2015, compared with the three months ended September 30, 2014. As a percentage of sales, net loss from operations was 0.43% for the three months ended September 30, 2015, compared to 21.93% for the three months ended September 30, 2014.

Other Income and Expenses

Other expense was $87,339 for the three months ended September 30, 2015, compared to other income of $53,373 for the three months ended September 30, 2014. Included in other expense for the quarter ended September 30, 2014, was an exchange gain of $79,220 on foreign currency exchange transactions compared to a loss of $113,719 in the current quarter.

Net Loss

Net loss was $411,028 for the three months ended September 30, 2015, compared to $1,838,026 for the three months ended September 30, 2014. This is a decrease of $1,426,998 compared to the prior year. Net loss per share, basic and diluted, was $0.04 for the three months ended September 30, 2015, compared to $0.20 for the three months ended September 30, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was $10,075,324 at September 30, 2015, compared to $14,168,957 at June 30, 2015.

Net cash used in operating activities was $3,178,491 for the three months ended September 30, 2015 compared to $481,025 for the three months ended September 30, 2014. At September 30, 2015, we had current assets of $30,900,154 and current liabilities of $13,663,036. We had accounts receivable of $11,894,993 at September 30, 2015 compared to $9,972,243 at June 30, 2015. We had revenues in excess of billings of $6,560,754 at September 30, 2015 compared to $5,267,275 at June 30, 2015. During the three months ended September 30, 2015, 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 $3,216,229 from $15,239,518 at June 30, 2015 to $18,455,747 at September 30, 2015. The increase in accounts receivable is due to invoicing for services and maintenance fees to various customers. To some customers, the maintenance fee is invoiced in advance for the year. The amount is recorded in unearned revenue and is recognized as revenue on the time proportionate method. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to $5,030,352 and $4,241,836, respectively at September 30, 2015.

The average days sales outstanding for the three months ended September 30, 2015 and 2014 were 116 days, respectively, for each period. The days sales outstanding have been calculated by taking into consideration the average combined balances of accounts receivable and revenue in excess of billings.

Net cash used by investing activities was $445,536 for the three months ended September 30, 2015, compared to $940,287 for the three months ended September 30, 2014. We had purchases of property and equipment of $625,794 compared to $1,031,128 for the comparable period last fiscal year.

Net cash provided by financing activities was $327,616 and $806,721 for the three months ended September 30, 2015, and 2014, respectively. During the three months ended September 30, 2015, we had net payments for bank loans and capital leases of $174,385 as compared to $2,591,334 for the three months ended September 30, 2014. 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 No. 11 of the financial statements. We are in compliance with the covenants of the financial arrangements and there is no default, which may lead to early payment of these obligations. We anticipate paying back all these obligations on their respective due dates from its own sources.

We typically fund the cash requirements for our operations in the U.S. through our license, services, and maintenance agreements, intercompany charges for corporate services, and through the exercise of options and warrants. As of September 30, 2015, we had approximately $10.07 million of cash, cash equivalents and marketable securities of which approximately $6.08 million is held by our foreign subsidiaries. As of June 30, 2015, we had approximately $14.17 million of cash, cash equivalents and marketable securities of which approximately $8.97 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 $1.5 to $2.5 million for APAC, U.S. and Europe new business development activities and infrastructure enhancements, which we expect to provide from current operations.

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

Financial Covenants

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

The Pakistani subsidiary, NetSol PK has an approved facility for export refinance from Askari Bank Limited amounting to Rupees 300 million ($2,858,776) 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 RECOGNTION

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. Revenue from the sale of licenses with major customization, modification, and development is recognized on a percentage of completion method. Revenue from the implementation of software is recognized on a percentage of completion method.

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, which in most instances is one year.

MULTIPLE ELEMENT ARRANGEMENTS

We 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 (multiple element arrangements).

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

INTANGIBLE ASSETS

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

SOFTWARE DEVELOPMENT COSTS

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

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

STOCK-BASED COMPENSATION

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

GOODWILL

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

RECENT ACCOUNTING PRONOUNCEMENTES

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

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

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

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

Under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, we have performed an assessment of the effectiveness of our internal controls over financial reporting as of September 30, 2015. This assessment was based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of our assessment, the Company has determined that as of September 30, 2015, there was no material weakness in the Company's internal control over financial reporting. Our management, including our Chief Executive Officer, believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the three months ended September 30, 2015, 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 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

Item 1A. Risk Factors

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO)
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO)
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO)

SIGNATURES

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

NETSOL TECHNOLOGIES, INC.

Date: November 12, 2015	*/s/ Najeeb U. Ghauri* NAJEEB U. GHAURI Chief Executive Officer
Date: November 12, 2015	*/s/Roger K. Almond* ROGER K. ALMOND Chief Financial Officer Principal Accounting Officer