

Edgar Filing: NETSOL TECHNOLOGIES INC - Form 10-Q

23975 Park Sorrento, Suite 250, Calabasas, CA 91302
(Address of principal executive offices) (Zip Code)

(818) 222-9195 / (818) 222-9197
(Issuer's telephone/facsimile numbers, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Small Reporting Company

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

Yes No

The issuer had 11,860,310 shares of its \$.01 par value Common Stock and no Preferred Stock issued and outstanding as of February 5, 2019.

NETSOL TECHNOLOGIES, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

| | As of December 31, 2018 | As of June 30, 2018 |
|-------------------------------------------------------------------------|-------------------------------|---------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$20,320,804 | \$22,088,853 |
| Accounts receivable, net of allowance of \$376,178 and \$610,061 | 7,852,296 | 12,775,461 |
| Accounts receivable, net - related party | 2,944,290 | 3,374,272 |
| Revenues in excess of billings | 13,832,654 | 14,285,778 |
| Revenues in excess of billings - related party | 62,323 | - |
| Convertible note receivable - related party | 3,156,500 | 2,123,500 |
| Other current assets | 4,092,921 | 2,703,032 |
| Total current assets | 52,261,788 | 57,350,896 |
| Revenues in excess of billings, net - long term | - | 1,206,669 |
| Property and equipment, net | 14,005,541 | 16,165,491 |
| Long term investment | 2,689,005 | 3,217,162 |
| Other assets | 35,470 | 70,299 |
| Intangible assets, net | 9,637,010 | 12,247,196 |
| Goodwill | 9,516,568 | 9,516,568 |
| Total assets | \$88,145,382 | \$99,774,281 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$7,468,984 | \$7,873,809 |
| Current portion of loans and obligations under capitalized leases | 7,627,426 | 8,595,919 |
| Unearned revenues | 4,705,302 | 5,949,581 |
| Common stock to be issued | 88,324 | 88,324 |
| Total current liabilities | 19,890,036 | 22,507,633 |
| Loans and obligations under capitalized leases; less current maturities | 345,473 | 330,596 |
| Total liabilities | 20,235,509 | 22,838,229 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |

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| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Preferred stock, \$.01 par value; 500,000 shares authorized; | - | - |
| Common stock, \$.01 par value; 14,500,000 shares authorized; 11,860,310 shares issued and 11,654,457 outstanding as of December 31, 2018 and 11,708,469 shares issued and 11,502,616 outstanding as of June 30, 2018 | 118,603 | 117,085 |
| Additional paid-in-capital | 127,398,738 | 126,479,147 |
| Treasury stock (At cost, 205,853 shares and 205,853 shares as of December 31, 2018 and June 30, 2018, respectively) | (1,205,024) | (1,205,024) |
| Accumulated deficit | (39,972,079) | (37,994,502) |
| Stock subscription receivable | (221,000) | (221,000) |
| Other comprehensive loss | (28,446,811) | (24,386,071) |
| Total NetSol stockholders' equity | 57,672,427 | 62,789,635 |
| Non-controlling interest | 10,237,446 | 14,146,417 |
| Total stockholders' equity | 67,909,873 | 76,936,052 |
| Total liabilities and stockholders' equity | \$88,145,382 | \$99,774,281 |

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, | |
|------------------------------------------------|--------------------------------------------|------------|------------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net Revenues: | | | | |
| License fees | \$4,817,569 | \$235,932 | \$10,773,682 | \$561,998 |
| Maintenance fees | 3,534,693 | 3,568,448 | 7,173,020 | 7,042,173 |
| Services | 8,237,334 | 9,087,191 | 14,655,968 | 16,104,928 |
| License fees - related party | - | 217,105 | - | 261,513 |
| Maintenance fees - related party | 127,030 | 101,251 | 228,379 | 204,214 |
| Services - related party | 286,001 | 1,236,508 | 568,123 | 3,090,385 |
| Total net revenues | 17,002,627 | 14,446,435 | 33,399,172 | 27,265,211 |
| Cost of revenues: | | | | |
| Salaries and consultants | 4,497,054 | 5,362,092 | 9,517,616 | 10,826,252 |
| Travel | 1,706,182 | 287,901 | 2,858,179 | 801,013 |
| Depreciation and amortization | 880,048 | 1,168,103 | 1,817,652 | 2,341,216 |
| Other | 1,060,772 | 939,986 | 2,109,096 | 1,796,568 |
| Total cost of revenues | 8,144,056 | 7,758,082 | 16,302,543 | 15,765,049 |
| Gross profit | 8,858,571 | 6,688,353 | 17,096,629 | 11,500,162 |
| Operating expenses: | | | | |
| Selling and marketing | 2,048,303 | 1,932,140 | 3,749,629 | 3,643,436 |
| Depreciation and amortization | 193,779 | 222,785 | 406,011 | 468,658 |
| General and administrative | 4,002,059 | 4,026,706 | 8,408,779 | 7,814,264 |
| Research and development cost | 424,652 | 189,891 | 742,807 | 374,976 |
| Total operating expenses | 6,668,793 | 6,371,522 | 13,307,226 | 12,301,334 |
| Income (loss) from operations | 2,189,778 | 316,831 | 3,789,403 | (801,172) |
| Other income and (expenses) | | | | |
| Gain (loss) on sale of assets | (3,504) | (8,939) | 48,790 | (16,069) |
| Interest expense | (63,804) | (109,675) | (163,238) | (227,746) |
| Interest income | 230,421 | 115,570 | 479,385 | 252,481 |
| Gain on foreign currency exchange transactions | 2,536,755 | 1,737,967 | 2,547,667 | 2,754,329 |
| Share of net loss from equity investment | (298,293) | (203,336) | (597,984) | (270,898) |
| Other income | 4,503 | 14,511 | 9,882 | 15,610 |
| Total other income (expenses) | 2,406,078 | 1,546,098 | 2,324,502 | 2,507,707 |
| Net income before income taxes | 4,595,856 | 1,862,929 | 6,113,905 | 1,706,535 |

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| | | | | |
|-----------------------------------------------|--------------|--------------|--------------|--------------|
| Income tax provision | (264,872) | (200,927) | (501,786) | (225,798) |
| Net income | 4,330,984 | 1,662,002 | 5,612,119 | 1,480,737 |
| Non-controlling interest | (1,475,355) | (1,027,581) | (1,793,901) | (1,215,814) |
| Net income attributable to NetSol | \$2,855,629 | \$634,421 | \$3,818,218 | \$264,923 |
| Net income (loss) per share: | | | | |
| Net income (loss) per common share | | | | |
| Basic | \$0.25 | \$0.06 | \$0.33 | \$0.02 |
| Diluted | \$0.25 | \$0.06 | \$0.33 | \$0.02 |
| Weighted average number of shares outstanding | | | | |
| Basic | 11,586,507 | 11,159,075 | 11,542,877 | 11,115,346 |
| Diluted | 11,592,193 | 11,171,543 | 11,548,563 | 11,127,814 |

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 | | For the Six Months | |
|-----------------------------------------------------------------|----------------------|-------------|--------------------|---------------|
| | Ended December 31, | | Ended December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$2,855,629 | \$634,421 | \$3,818,218 | \$264,923 |
| Other comprehensive income (loss): | | | | |
| Translation adjustment | (5,784,490) | (2,453,890) | (6,248,566) | (3,279,634) |
| Translation adjustment attributable to non-controlling interest | 1,986,953 | 841,009 | 2,187,826 | 1,078,174 |
| Net translation adjustment | (3,797,537) | (1,612,881) | (4,060,740) | (2,201,460) |
| Comprehensive loss attributable to NetSol | \$(941,908) | \$(978,460) | \$(242,522) | \$(1,936,537) |

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, | |
|---------------------------------------------------------------------------------------------|------------------------------------------|--------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | \$5,612,119 | \$1,480,737 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,223,663 | 2,809,874 |
| Share of net loss from investment under equity method | 597,984 | 270,898 |
| (Gain) loss on sale of assets | (48,790) | 16,069 |
| Stock based compensation | 869,743 | 833,530 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,208,751 | (13,231,059) |
| Accounts receivable - related party | (219,538) | (1,637,829) |
| Revenues in excess of billing | (7,633,216) | 602,676 |
| Revenues in excess of billing - related party | (91,279) | (32,308) |
| Other current assets | (1,409,746) | (524,547) |
| Accounts payable and accrued expenses | 139,331 | 887,824 |
| Unearned revenue | (1,094,375) | 6,469,146 |
| Net cash provided by (used in) operating activities | 3,154,647 | (2,054,989) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,441,237) | (543,123) |
| Sales of property and equipment | 519,645 | 193,241 |
| Convertible note receivable - related party | (1,033,000) | (500,000) |
| Investment in WRLD3D | - | (50,000) |
| Net cash used in investing activities | (1,954,592) | (899,882) |
| Cash flows from financing activities: | | |
| Proceeds from the exercise of stock options and warrants | 65,000 | 215,311 |
| Proceeds from exercise of subsidiary options | 2,650 | 7,755 |
| Purchase of treasury stock | - | (601,020) |
| Dividend paid by subsidiary to non-controlling interest | (566,465) | (417,853) |
| Proceeds from bank loans | 382,240 | 708,457 |
| Payments on capital lease obligations and loans - net | (289,027) | (361,814) |
| Net cash used in financing activities | (405,602) | (449,164) |
| Effect of exchange rate changes | (2,562,502) | (764,269) |
| Net decrease in cash and cash equivalents | (1,768,049) | (4,168,304) |
| Cash and cash equivalents at beginning of the period | 22,088,853 | 14,172,954 |
| Cash and cash equivalents at end of period | \$20,320,804 | \$10,004,650 |

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,
2018 2017

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for:

| | | |
|----------|------------|------------|
| Interest | \$ 170,571 | \$ 189,769 |
| Taxes | \$ 435,659 | \$ 226,098 |

NON-CASH INVESTING AND FINANCING ACTIVITIES:

| | | |
|--------------------------------------------|-----------|------------|
| Provided services for investment in WRLD3D | \$ - | \$ 553,678 |
| Assets acquired under capital lease | \$ 66,256 | \$ 113,220 |

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

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

The consolidated condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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, 2018. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

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

Wholly owned Subsidiaries

NetSol Technologies Americas, Inc. ("NTA")

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

NetSol Technologies Australia Pty Ltd. (“Australia”)

NetSol Technologies Europe Limited (“NTE”)

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

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

Ascent Europe Ltd. (“AEL”)

Majority-owned Subsidiaries

NetSol Technologies, Ltd. (“NetSol PK”)

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

NetSol Technologies Thailand Limited (“NetSol Thai”)

Virtual Lease Services Holdings Limited (“VLSH”)

Virtual Lease Services Limited (“VLS”)

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

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. The areas requiring significant estimates are provision for doubtful accounts, provision for taxation, useful life of depreciable assets, useful life of intangible assets, contingencies, and estimated contract costs. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results could differ from those estimates.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

Concentration of Credit Risk

Cash includes cash on hand and demand deposits in accounts maintained within the United States as well as in foreign countries. Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash and restricted cash. The Company maintains balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for the banks located in the United States. Balances at financial institutions within certain foreign countries are not covered by insurance. As of December 31, 2018, and June 30, 2018, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately \$18,959,598 and \$20,933,224, 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.

Fair Value of Financial Instruments

The Company applies the provisions of ASC 820-10, "*Fair Value Measurements and Disclosures*." ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. For certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and short-term debt, the carrying amounts approximate fair value due to their relatively short maturities. The carrying amounts of the convertible note receivable and the long-term debt approximate their fair values based on current interest rates for instruments with similar characteristics.

The three levels of valuation hierarchy are defined as follows:

Level 1: Valuations consist of unadjusted quoted prices in active markets for identical assets and liabilities and has the highest priority.

Level 2: Valuations rely on quoted prices in markets that are not active or observable inputs over the full term of the asset or liability.

Level 3: Valuations are based on prices or third party or internal valuation models that require inputs that are significant to the fair value measurement and are less observable and thus have the lowest priority.

The Company does not have any financial assets that are measured at fair value on a recurring basis as of December 31, 2018.

The Company's financial assets that were measured at fair value on a recurring basis as of June 30, 2018, were as follows:

| | Level 1 | Level 2 | Level 3 | Total Assets |
|-------------------------------------------|---------|---------|--------------|--------------|
| Revenues in excess of billing - long term | \$ - | \$ - | \$ 1,206,669 | \$ 1,206,669 |
| Total | \$ - | \$ - | \$ 1,206,669 | \$ 1,206,669 |

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

The reconciliation from June 30, 2018 to December 31, 2018 is as follows:

| | Revenues in excess of billing - long term | Fair value discount | Total |
|------------------------------|----------------------------------------------------|------------------------|-------------|
| Balance at June 30, 2018 | \$1,445,245 | \$(238,576) | \$1,206,669 |
| Effect of ASC 606 adoption | (1,445,245) | 238,576 | (1,206,669) |
| Balance at December 31, 2018 | \$- | \$- | \$- |

Management analyzes all financial instruments with features of both liabilities and equity under ASC 480, “*Distinguishing Liabilities from Equity*” and ASC 815, “*Derivatives and Hedging*.” Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrants and option derivatives are valued using the Black-Scholes model.

New Accounting Pronouncements

Recent Accounting Standards Adopted by the Company:

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 did not have a material impact on the Company’s results of operations, financial position or disclosures.

In August 2016, the FASB issued ASU 2016-15, *Clarification of Certain Cash Receipts and Cash Payments*, which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position or disclosures.

On November 17, 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. It is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The new standard requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Earlier adoption is permitted. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position or disclosures.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business*, which clarifies and provides a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this update should be applied prospectively on or after the effective date. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those periods. Early adoption is permitted for acquisition or deconsolidation transactions occurring before the issuance date or effective date and only when the transactions have not been reported in issued or made available for issuance financial statements. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position or disclosures.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as a modification. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard will be effective prospectively for the Company for the fiscal year beginning July 1, 2018. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position or disclosures.

In August 2018, the Securities and Exchange Commission issued Release No. 33-10532 that amends and clarifies certain financial reporting requirements. The principal change to the Company's financial reporting is the inclusion of the annual disclosure requirement of changes in stockholders' equity in Rule 3-04 of Regulation S-X to interim periods. The Company adopted this new rule beginning the quarter ended September 30, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in *Revenue Recognition* (Topic 605) and Subtopic 985-605 *Software - Revenue Recognition*. Topic 605 and Subtopic 985-605 are collectively referred to as "Topic 605" or "prior GAAP." Under Topic 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires enhanced disclosures, including disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted Topic 606 on the first day of fiscal 2019 using the modified retrospective transition method. Under this method, the Company evaluated contracts that were in effect at the beginning of fiscal 2019 as if those contracts had been accounted for under Topic 606. The Company did not evaluate individual modifications for those periods prior to the adoption date, but the aggregate effect of all modifications as of the adoption date and such effects are provided below. Under the modified retrospective transition method, periods prior to the adoption date were not adjusted and continue to be reported in accordance with historical, pre-Topic 606 accounting. A cumulative catch-up adjustment was recorded to beginning accumulated deficit to reflect the impact of all existing arrangements under Topic 606.

As a result of adopting ASC 606, the Company recorded a net decrease of \$5,795,795 to opening accumulated deficit and \$2,957,860 to non-controlling interest as of July 1, 2018 as a cumulative catch-up adjustment for all open contracts as of the date of adoption. The most significant drivers of this adjustment related to the allocation of revenue to certain performance obligations on a stand-alone selling price basis. Specifically, contracts with one customer were required to be aggregated under the guidance of ASC 606, resulting in additional revenue allocated to the maintenance services under these contracts. Under the guidance of ASC 605, the Company had recognized one of these contracts as a stand-alone and separate contract with this customer, which resulted in additional revenue allocated to the license and services that had previously been delivered to this customer.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

The following table presents the cumulative effect adjustments, net of income tax effects, to beginning consolidated balance sheet accounts for the new accounting standards adopted by the Company on the first day of fiscal 2019:

| | As of June 30, 2018 | Topic 606 Adjustments | As of July 1, 2018 |
|-------------------------------------------------------------------------|---------------------------|--------------------------|-----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$22,088,853 | | \$22,088,853 |
| Accounts receivable, net of allowance of \$610,061 and \$571,511 | 12,775,461 | | 12,775,461 |
| Accounts receivable, net - related party | 3,374,272 | | 3,374,272 |
| Revenues in excess of billings | 14,285,778 | (7,328,812) | 6,956,966 |
| Revenues in excess of billings - related party | - | | - |
| Convertible note receivable - related party | 2,123,500 | | 2,123,500 |
| Other current assets | 2,703,032 | | 2,703,032 |
| Total current assets | 57,350,896 | (7,328,812) | 50,022,084 |
| Revenues in excess of billings, net - long term | 1,206,669 | (1,206,669) | - |
| Property and equipment, net | 16,165,491 | | 16,165,491 |
| Long term investment | 3,217,162 | | 3,217,162 |
| Other assets | 70,299 | | 70,299 |
| Intangible assets, net | 12,247,196 | | 12,247,196 |
| Goodwill | 9,516,568 | | 9,516,568 |
| Total assets | \$99,774,281 | \$(8,535,481) | \$91,238,800 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$7,873,809 | | \$7,873,809 |
| Current portion of loans and obligations under capitalized leases | 8,595,919 | | 8,595,919 |
| Unearned revenues | 5,949,581 | 218,174 | 6,167,755 |
| Common stock to be issued | 88,324 | | 88,324 |
| Total current liabilities | 22,507,633 | 218,174 | 22,725,807 |
| Loans and obligations under capitalized leases; less current maturities | 330,596 | | 330,596 |
| Total liabilities | 22,838,229 | 218,174 | 23,056,403 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |

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| | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------|---------------|
| Preferred stock, \$.01 par value; 500,000 shares authorized; | - | - | - |
| Common stock, \$.01 par value; 14,500,000 shares authorized; 11,708,469 shares issued and 11,502,616 outstanding as of June 30, 2018 and 11,225,385 shares issued and 11,190,606 outstanding as of June 30, 2017 | 117,085 | | 117,085 |
| Additional paid-in-capital | 126,479,147 | | 126,479,147 |
| Treasury stock (At cost, 205,853 shares and 34,779 shares as of June 30, 2018 and June 30, 2017, respectively) | (1,205,024) | | (1,205,024) |
| Accumulated deficit | (37,994,502) | (5,795,795) | (43,790,297) |
| Stock subscription receivable | (221,000) | | (221,000) |
| Other comprehensive loss | (24,386,071) | | (24,386,071) |
| Total NetSol stockholders' equity | 62,789,635 | (5,795,795) | 56,993,840 |
| Non-controlling interest | 14,146,417 | (2,957,860) | 11,188,557 |
| Total stockholders' equity | 76,936,052 | (8,753,655) | 68,182,397 |
| Total liabilities and stockholders' equity | \$99,774,281 | \$(8,535,481) | \$91,238,800 |

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

The following table presents the cumulative effect adjustments, net of income tax effects, to beginning consolidated balance sheet accounts for the new accounting standards adopted by the Company as of December 31, 2018:

| | As reported under Topic 606 December 31, 2018 | Adjustments | Balances under Prior GAAP December 31, 2018 |
|-------------------------------------------------------------------------|-----------------------------------------------------------|-------------|---------------------------------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$20,320,804 | | \$20,320,804 |
| Accounts receivable, net of allowance of \$376,178 and \$610,061 | 7,852,296 | | 7,852,296 |
| Accounts receivable, net - related party | 2,944,290 | | 2,944,290 |
| Revenues in excess of billings | 13,832,654 | 8,426,401 | 22,259,055 |
| Revenues in excess of billings - related party | 62,323 | | 62,323 |
| Convertible note receivable - related party | 3,156,500 | | 3,156,500 |
| Other current assets | 4,092,921 | | 4,092,921 |
| Total current assets | 52,261,788 | 8,426,401 | 60,688,189 |
| Revenues in excess of billings, net - long term | - | 1,356,637 | 1,356,637 |
| Property and equipment, net | 14,005,541 | | 14,005,541 |
| Long term investment | 2,689,005 | | 2,689,005 |
| Other assets | 35,470 | | 35,470 |
| Intangible assets, net | 9,637,010 | | 9,637,010 |
| Goodwill | 9,516,568 | | 9,516,568 |
| Total assets | \$88,145,382 | \$9,783,038 | \$97,928,420 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$7,468,984 | | \$7,468,984 |
| Current portion of loans and obligations under capitalized leases | 7,627,426 | | 7,627,426 |
| Unearned revenues | 4,705,302 | (217,410) | 4,487,892 |
| Common stock to be issued | 88,324 | | 88,324 |
| Total current liabilities | 19,890,036 | (217,410) | 19,672,626 |
| Loans and obligations under capitalized leases; less current maturities | 345,473 | | 345,473 |

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| | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------|---------------|
| Total liabilities | 20,235,509 | (217,410) | 20,018,099 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Preferred stock, \$.01 par value; 500,000 shares authorized; | - | - | - |
| Common stock, \$.01 par value; 14,500,000 shares authorized; 11,860,310 shares issued and 11,654,457 outstanding as of December 31, 2018 and 11,708,469 shares issued and 11,502,616 outstanding as of June 30, 2018 | 118,603 | | 118,603 |
| Additional paid-in-capital | 127,398,738 | | 127,398,738 |
| Treasury stock (At cost, 205,853 shares and 205,853 shares as of December 31, 2018 and June 30, 2018, respectively) | (1,205,024) | | (1,205,024) |
| Accumulated deficit | (39,972,079) | 6,621,172 | (33,350,907) |
| Stock subscription receivable | (221,000) | | (221,000) |
| Other comprehensive loss | (28,446,811) | | (28,446,811) |
| Total NetSol stockholders' equity | 57,672,427 | 6,621,172 | 64,293,599 |
| Non-controlling interest | 10,237,446 | 3,379,276 | 13,616,722 |
| Total stockholders' equity | 67,909,873 | 10,000,448 | 77,910,321 |
| Total liabilities and stockholders' equity | \$88,145,382 | \$9,783,038 | \$97,928,420 |

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

The following table summarizes the effects of adopting Topic 606 on the Company's Condensed Consolidated Statement of Income for the three and six months ended December 31, 2018:

| | For the Three Months Ended December 31, 2018 | | | For the Six Months Ended December 31, 2018 | | |
|----------------------------------|-------------------------------------------------|-------------|---------------------|-----------------------------------------------|-------------|---------------------|
| | As reported under Topic 606 | Adjustments | Under prior GAAP | As reported Topic 606 | Adjustments | Under prior GAAP |
| Net Revenues: | | | | | | |
| License fees | \$4,817,569 | | \$4,817,569 | \$10,773,682 | \$- | \$10,773,682 |
| Maintenance fees | 3,534,693 | 210,879 | 3,745,572 | 7,173,020 | 357,356 | 7,530,376 |
| Services | 8,237,334 | | 8,237,334 | 14,655,968 | - | 14,655,968 |
| Maintenance fees - related party | 127,030 | | 127,030 | 228,379 | - | 228,379 |
| Services - related party | 286,001 | | 286,001 | 568,123 | - | 568,123 |
| Total net revenues | 17,002,627 | 210,879 | 17,213,506 | 33,399,172 | 357,356 | 33,756,528 |
| Cost of revenues: | | | | | | |
| Salaries and consultants | 4,497,054 | | 4,497,054 | 9,517,616 | - | 9,517,616 |
| Travel | 1,706,182 | | 1,706,182 | 2,858,179 | - | 2,858,179 |
| Depreciation and amortization | 880,048 | | 880,048 | 1,817,652 | - | 1,817,652 |
| Other | 1,060,772 | | 1,060,772 | 2,109,096 | - | 2,109,096 |
| Total cost of revenues | 8,144,056 | - | 8,144,056 | 16,302,543 | - | 16,302,543 |
| Gross profit | 8,858,571 | 210,879 | 9,069,450 | 17,096,629 | 357,356 | 17,453,985 |
| Operating expenses: | | | | | | |
| Selling and marketing | 2,048,303 | | 2,048,303 | 3,749,629 | - | 3,749,629 |
| Depreciation and amortization | 193,779 | | 193,779 | 406,011 | - | 406,011 |
| General and administrative | 4,002,059 | | 4,002,059 | 8,408,779 | - | 8,408,779 |
| Research and development cost | 424,652 | | 424,652 | 742,807 | - | 742,807 |

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| | | | | | | |
|------------------------------------------------|--------------|------------|--------------|--------------|------------|--------------|
| Total operating expenses | 6,668,793 | - | 6,668,793 | 13,307,226 | - | 13,307,226 |
| Income from operations | 2,189,778 | 210,879 | 2,400,657 | 3,789,403 | 357,356 | 4,146,759 |
| Other income and (expenses) | | | | | | |
| Gain (loss) on sale of assets | (3,504) | | (3,504) | 48,790 | - | 48,790 |
| Interest expense | (63,804) | | (63,804) | (163,238) | - | (163,238) |
| Interest income | 230,421 | 74,985 | 305,406 | 479,385 | 149,968 | 629,353 |
| Gain on foreign currency exchange transactions | 2,536,755 | 685,766 | 3,222,521 | 2,547,667 | 739,469 | 3,287,136 |
| Share of net loss from equity investment | (298,293) | | (298,293) | (597,984) | - | (597,984) |
| Other income | 4,503 | | 4,503 | 9,882 | - | 9,882 |
| Total other income (expenses) | 2,406,078 | 760,751 | 3,166,829 | 2,324,502 | 889,437 | 3,213,939 |
| Net income before income taxes | 4,595,856 | 971,630 | 5,567,486 | 6,113,905 | 1,246,793 | 7,360,698 |
| Income tax provision | (264,872) | | (264,872) | (501,786) | - | (501,786) |
| Net income | 4,330,984 | 971,630 | 5,302,614 | 5,612,119 | 1,246,793 | 6,858,912 |
| Non-controlling interest | (1,475,355) | (328,411) | (1,803,766) | (1,793,901) | (421,416) | (2,215,317) |
| Net income attributable to NetSol | \$2,855,629 | \$643,219 | \$3,498,848 | \$3,818,218 | \$825,377 | \$4,643,595 |
| Net income per share: | | | | | | |
| Net income per common share | | | | | | |
| Basic | \$0.25 | \$0.05 | \$0.30 | \$0.33 | \$0.07 | \$0.40 |
| Diluted | \$0.25 | \$0.05 | \$0.30 | \$0.33 | \$0.07 | \$0.40 |
| Weighted average number of shares outstanding | | | | | | |
| Basic | 11,586,507 | 11,586,507 | 11,586,507 | 11,542,877 | 11,542,877 | 11,542,877 |
| Diluted | 11,592,193 | 11,592,193 | 11,592,193 | 11,548,563 | 11,548,563 | 11,548,563 |

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

The following table summarizes the effects of adopting Topic 606 on the financial statement line items of the Company's Consolidated Statement of Cash Flows for the three months ended December 31, 2018:

| | For the Six Months Ended December 31, 2018 | | |
|-----------------------------------------------------------------------------------|-----------------------------------------------|--------------|---------------------|
| | As reported under Topic 606 | Adjustments | Under prior GAAP |
| Cash flows from operating activities: | | | |
| Net income | \$5,612,119 | \$1,246,793 | \$6,858,912 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 2,223,663 | | 2,223,663 |
| Share of net loss from investment under equity method | 597,984 | | 597,984 |
| Loss on sale of assets | (48,790) | | (48,790) |
| Stock based compensation | 869,743 | | 869,743 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 4,208,751 | | 4,208,751 |
| Accounts receivable - related party | (219,538) | | (219,538) |
| Revenues in excess of billing | (7,633,216) | (1,247,557) | (8,880,773) |
| Revenues in excess of billing - related party | (91,279) | | (91,279) |
| Other current assets | (1,409,746) | | (1,409,746) |
| Accounts payable and accrued expenses | 139,331 | | 139,331 |
| Unearned revenue | (1,094,375) | 764 | (1,093,611) |
| Net cash provided by operating activities | 3,154,647 | - | 3,154,647 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (1,441,237) | | (1,441,237) |
| Sales of property and equipment | 519,645 | | 519,645 |
| Convertible note receivable - related party | (1,033,000) | | (1,033,000) |
| Net cash used in investing activities | (1,954,592) | - | (1,954,592) |
| Cash flows from financing activities: | | | |
| Proceeds from the exercise of stock options and warrants | 65,000 | | 65,000 |
| Proceeds from exercise of subsidiary options | 2,650 | | 2,650 |

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| | | |
|---------------------------------------------------------|------------------|--------------|
| Dividend paid by subsidiary to non-controlling interest | (566,465) | (566,465) |
| Proceeds from bank loans | 382,240 | 382,240 |
| Payments on capital lease obligations and loans - net | (289,027) | (289,027) |
| Net cash used in financing activities | (405,602) - | (405,602) |
| Effect of exchange rate changes | (2,562,502) | (2,562,502) |
| Net increase in cash and cash equivalents | (1,768,049) - | (1,768,049) |
| Cash and cash equivalents at beginning of the period | 22,088,853 | 22,088,853 |
| Cash and cash equivalents at end of period | \$20,320,804 \$- | \$20,320,804 |

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

Accounting Standards Recently Issued but Not Yet Adopted by the Company:

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize right-of-use assets and lease liabilities, for all leases, with the exception of short-term leases, at the commencement date of each lease. This ASU requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. This ASU is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The amendments of this update should be applied using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The Company is currently evaluating its lease portfolio; assessing system needs to support adoption of the new lease standard; and analyzing procedural changes, including updating our lease accounting policy as needed to reflect the new requirements of this standard. The Company continues to evaluate the impact that these changes in methodology will have on its financial condition, results of operations and disclosures.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods. Early adoption is permitted for interim or annual goodwill impairment test performed on testing dates after January 1, 2017. The Company will apply this guidance to applicable impairment tests after the adoption date.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. The ASU was issued to address the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liabilities and equity. The ASU, among other things,

eliminates the need to consider the effects of down round features when analyzing convertible debt, warrants and other financing instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. The amendments are effective for fiscal years beginning after December 15, 2018, and should be applied retrospectively. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *“Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.”* This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this ASU also require certain disclosures about stranded tax effects. The amendments in this ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption of this standard on its consolidated financial statements.

In March 2018, FASB issued ASU No. 2018-05, *“Income Taxes (Topic 740).”* This ASU was issued to provide guidance on the income tax accounting implications of the Tax Act and allows for entities to report provisional amounts for specific income tax effects of the Tax Act for which the accounting under ASC Topic 740 was not yet complete, but a reasonable estimate could be determined. A measurement period of one year is allowed to complete the accounting effects under ASC Topic 740 and revise any previous estimates reported. Any provisional amounts or subsequent adjustments included in an entity’s financial statements during the measurement period should be included in income from continuing operations as an adjustment to tax expense in the reporting period the amounts are determined.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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In June 2018, the FASB issued ASU 2018-07 “*Compensation — Stock compensation — Improvements to Nonemployee Share-Based Payment Accounting*”. This update aims to simplify the accounting for share-based payments awarded to non-employees for goods or services acquired. The update specifies that the measurement date is the grant date and that awards are required to be measured at fair value. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption of this standard on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, “*Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*,” which is designed to improve the effectiveness of disclosures by removing, modifying and adding disclosures related to fair value measurements. The update is effective for the Company on July 1, 2020, with early adoption permitted. The Company is currently assessing the impact this update will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, “*Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*.” The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The amendments in this update are effective for the Company on July 1, 2020, with early adoption permitted. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is in the process of assessing the impact of the amendments in this update but does not expect it to have a material impact on the Company’s consolidated financial statements.

All other newly issued accounting pronouncements not yet effective have been deemed either immaterial or not applicable.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

NOTE 3 – REVENUE RECOGNITION

The Company determines revenue recognition through the following steps:

Identification of the contract, or contracts, with a customer;
Identification of the performance obligations in the contract;
Determination of the transaction price;
Allocation of the transaction price to the performance obligations in the contract; and
Recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company records the amount of revenue and related costs by considering whether the entity is a principal (gross presentation) or an agent (net presentation) by evaluating the nature of its promise to the customer. Revenue is presented net of sales, value-added and other taxes collected from customers and remitted to government authorities.

The Company has two primary revenue streams: core revenue and non-core revenue.

Core Revenue

The Company generates its core revenue from the following sources: (1) software licenses, (2) services, which include implementation and consulting services, and (3) maintenance, which includes post contract support, of its enterprise software solutions for the lease and finance industry. The Company offers its software using the same underlying technology via two models: a traditional on-premises licensing model and a subscription model. The on-premises model involves the sale or license of software on a perpetual basis to customers who take possession of the software and install and maintain the software on their own hardware. Under the subscription delivery model, the Company provides access to its software on a hosted basis as a service and customers generally do not have the contractual right to take possession of the software.

Non-Core Revenue

The Company generates its non-core revenue by providing business process outsourcing (“BPO”), other IT services and internet services.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under Topic 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied by transferring the promised good or service to the customer. The Company identifies and tracks the performance obligations at contract inception so that the Company can monitor and account for the performance obligations over the life of the contract.

The Company’s contracts which contain multiple performance obligations generally consist of the initial purchase of subscription or licenses and a professional services engagement. License purchases generally have multiple performance obligations as customers purchase maintenance and services in addition to the licenses. The Company’s single performance obligation arrangements are typically maintenance renewals, subscription renewals and services engagements.

For contracts with multiple performance obligations where the contracted price differs from the standalone selling price (“SSP”) for any distinct good or service, the Company may be required to allocate the contract’s transaction price to each performance obligation using its best estimate for the SSP.

Subscription

Subscription revenue is recognized ratably over the initial subscription period committed to by the customer commencing when the product is made available to the customer. The initial subscription period is typically 12 to 60 months. The Company generally invoices its customers in advance in quarterly or annual installments and typical payment terms provide that customers make payment within 30 days of invoice.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(UNAUDITED)

Software Licenses

Transfer of control for software is considered to have occurred upon delivery of the product to the customer. The Company's typical payment terms tend to vary by region, but its standard payment terms are within 30 days of invoice.

Maintenance

Revenue from support services and product updates, referred to as maintenance revenue, is recognized ratably over the term of the maintenance period, which in most instances is one year. Software license updates provide customers with rights to unspecified software product updates, maintenance releases and patches released during the term of the support period on a when-and-if available basis. The Company's customers purchase both product support and license updates when they acquire new software licenses. In addition, a majority of customers renew their support services contracts annually and typical payment terms provide that customers make payment within 30 days of invoice.

Professional Services

Revenue from professional services is typically comprised of implementation, development, data migration, training or other consulting services. Consulting services are generally sold on a time-and-materials or fixed fee basis and can include services ranging from software installation to data conversion and building non-complex interfaces to allow the software to operate in integrated environments. The Company recognizes revenue for time-and-materials arrangements as the services are performed. In fixed fee arrangements, revenue is recognized as services are performed as measured by costs incurred to date, compared to total estimated costs to complete the services project. Management applies judgment when estimating project status and the costs necessary to complete the services projects. A number of internal and external factors can affect these estimates, including labor rates, utilization and efficiency variances and specification and testing requirement changes. Services are generally invoiced upon milestones in the contract or upon consumption of the hourly resources and payments are typically due 30 days after invoice.

BPO and Internet Services

Revenue from BPO services is recognized based on the stage of completion which is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Internet services are invoiced either monthly, quarterly or half yearly in advance to the customers and revenue is recognized ratably overtime on a monthly basis.

Disaggregated Revenue

The Company disaggregates revenue from contracts with customers by category — core and non-core, as it believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2018****(UNAUDITED)**

The Company's disaggregated revenue by category is as follows:

| | For the Three Months Ended December 31, | | For the Six Months Ended December 31, | |
|----------------------------------|--------------------------------------------|--------------|------------------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Core: | | | | |
| License | \$4,817,569 | \$235,932 | \$10,773,682 | \$561,998 |
| Maintenance | 3,534,693 | 3,568,448 | 7,173,020 | 7,042,173 |
| Services | 6,801,466 | 7,729,553 | 11,771,739 | 13,687,819 |
| License - related party | - | 217,105 | - | 261,513 |
| Maintenance fees - related party | 127,030 | 101,251 | 228,379 | 204,214 |
| Services - related party | 241,647 | 319,401 | 422,244 | 939,950 |
| Total core revenue, net | 15,522,405 | 12,171,690 | 30,369,064 | 22,697,667 |
| Non-Core: | | | | |
| Services | 1,435,868 | 1,357,638 | 2,884,229 | 2,417,109 |
| Services - related party | 44,354 | 917,107 | 145,879 | 2,150,435 |
| Total non-core revenue, net | 1,480,222 | 2,274,745 | 3,030,108 | 4,567,544 |
| Total net revenue | \$17,002,627 | \$14,446,435 | \$33,399,172 | \$27,265,211 |

Significant Judgments

More judgments and estimates are required under Topic 606 than were required under Topic 605. Due to the complexity of certain contracts, the actual revenue recognition treatment required under Topic 606 for the Company's arrangements may be dependent on contract-specific terms and may vary in some instances.

Judgment is required to determine the SSP for each distinct performance obligation. The Company rarely licenses or sells products on a stand-alone basis, so the Company is required to estimate the range of SSPs for each performance

obligation. In instances where SSP is not directly observable because the Company does not sell the license, product or service separately, the Company determines the SSP using information that may include market conditions and other observable inputs. In making these judgments, the Company analyzes various factors, including its pricing methodology and consistency, size of the arrangement, length of term, customer demographics and overall market and economic conditions. Based on these results, the estimated SSP is set for each distinct product or service delivered to customers.

The most significant inputs involved in the Company's revenue recognition policies are: The (1) stand-alone selling prices of the Company's software license, and the (2) the method of recognizing revenue for installation/customization, and other services.

The stand-alone selling price of the licenses was measured primarily through an analysis of pricing that management evaluated when quoting prices to customers. Although the Company has no history of selling its software separately from maintenance and other services, the Company does have historical experience with amending contracts with customers to provide additional modules of its software or providing those modules at an optional price. This information guides the Company in assessing the stand-alone selling price of the Company's software, since the Company can observe instances where a customer had a particular component of the Company's software that was essentially priced separate from other goods and services that the Company delivered to that customer.

The Company recognized revenue from implementation and customization services using the percentage of estimated "man-days" that the work requires. The Company believes the level of effort to complete the services is best measured by the amount of time (measured as an employee working for one day on implementation/customization work) that is required to complete the implementation or customization work. The Company reviews its estimate of man-days required to complete implementation and customization services each reporting period.

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Revenue is recognized over time for the Company's subscription, maintenance and fixed fee professional services that are separate performance obligations. For the Company's professional services, revenue is recognized over time, generally using costs incurred or hours expended to measure progress. Judgment is required in estimating project status and the costs necessary to complete projects. A number of internal and external factors can affect these estimates, including labor rates, utilization, specification variances and testing requirement changes.

If a group of agreements are entered at or near the same time and so closely related that they are, in effect, part of a single arrangement, such agreements are deemed to be combined as one arrangement for revenue recognition purposes. The Company exercises significant judgment to evaluate the relevant facts and circumstances in determining whether agreements should be accounted for separately or as a single arrangement. The Company's judgments about whether a group of contracts comprise a single arrangement can affect the allocation of consideration to the distinct performance obligations, which could have an effect on results of operations for the periods involved.

If a contract includes variable consideration, the Company exercises judgment in estimating the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. When estimating variable consideration, the Company will consider all relevant facts and circumstances. Variable consideration will be estimated and included in the contract price only when it is probable that a significant reversal in the amount of revenue recognized will not occur.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets (revenues in excess of billings), or contract liabilities (deferred revenue) on the Company's Consolidated Balance Sheets. The Company records revenues in excess of billings when the Company has transferred goods or services but does not yet have the right to consideration. The Company records deferred revenue when the Company has received or has the right to receive consideration but has not yet transferred goods or services to the customer.

The revenues in excess of billings are transferred to receivables when the rights to consideration become unconditional, usually upon completion of a milestone.

The Company's revenues in excess of billings and deferred revenue are as follows:

| | As of December 31, 2018 | As of July 1, 2018 |
|--------------------------------|-------------------------------|--------------------------|
| Revenues in excess of billings | \$13,832,654 | \$6,956,966 |
| Deferred Revenue | \$4,705,302 | \$6,167,755 |

During the three and six months ended December 31, 2018, the Company recognized revenue of \$1,494,412 and \$3,664,251, respectively, which was included in the deferred revenue balance, as adjusted for Topic 606, at the beginning of the period. All other activity in deferred revenue is due to the timing of invoicing in relation to the timing of revenue recognition.

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Revenue allocated to remaining performance obligations represents the transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted but unsatisfied performance obligations were approximately \$84,145,595 as of December 31, 2018, of which the Company estimates to recognize approximately \$13,940,314 in revenue over the next 12 months and the remainder over an estimated 6 years thereafter. Actual revenue recognition depends in part on the timing of software modules installed at various customer sites. Accordingly, some factors that affect the Company's revenue, such as the availability and demand for modules within customer geographic locations, is not entirely within the Company's control. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that its contracts generally do not include a significant financing component. The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, and not to facilitate financing arrangements.

Deferred Revenue

The Company typically invoices its customers for subscription and support fees in advance on a quarterly or annual basis, with payment due at the start of the subscription or support term. Unpaid invoice amounts for non-cancelable license and services starting in future periods are included in accounts receivable and deferred revenue.

Practical Expedients and Exemptions

There are several practical expedients and exemptions allowed under Topic 606 that impact timing of revenue recognition and the Company's disclosures. Below is a list of practical expedients the Company applied in the adoption and application of Topic 606:

Application

The Company does not evaluate a contract for a significant financing component if payment is expected within one year or less from the transfer of the promised items to the customer.

The Company generally expenses sales commissions and sales agent fees when incurred when the amortization period would have been one year or less or the commissions are based on cashed received. These costs are recorded within sales and marketing expense in the Consolidated Statement of Operations.

The Company does not disclose the value of unsatisfied performance obligations for contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed (applies to time-and-material engagements).

Modified Retrospective Transition Adjustments

For contract modifications, the Company reflected the aggregate effect of all modifications that occurred prior to the adoption date when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to satisfied and unsatisfied performance obligations for the modified contract at transition.

Costs to Obtain a Contract

The Company does not have a material amount of costs to obtain a contract capitalized at any balance sheet date. In general, the Company incurs few direct incremental costs of obtaining new customer contracts. The Company rarely incurs incremental costs to review or otherwise enter into contractual arrangements with customers. In addition, the Company's sales personnel receive fees that are referred to as commissions, but that are based on more than simply signing up new customers. The Company's sales personnel are required to perform additional duties beyond new customer contract inception dates, including fulfilment duties and collections efforts.

NETSOL TECHNOLOGIES, INC.

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NOTE 4 – 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 and stock awards.

The components of basic and diluted earnings per share were as follows:

| | For the three months ended December 31, 2018 | | | For the six months ended December 31, 2018 | | |
|---------------------------------------------|-------------------------------------------------|------------|--------------|-----------------------------------------------|------------|--------------|
| | Net Income | Shares | Per Share | Net Income | Shares | Per Share |
| Basic income per share: | | | | | | |
| Net income available to common shareholders | \$2,855,629 | 11,586,507 | \$0.25 | \$3,818,218 | 11,542,877 | \$0.33 |
| Effect of dilutive securities | | | | | | |
| Stock options | - | 5,686 | - | - | 5,686 | - |
| Diluted income per share | \$2,855,629 | 11,592,193 | \$0.25 | \$3,818,218 | 11,548,563 | \$0.33 |

| | For the three months ended December 31, 2017 | | | For the six months ended December 31, 2017 | | |
|---------------------------------------------|-------------------------------------------------|------------|--------------|-----------------------------------------------|------------|--------------|
| | Net Income | Shares | Per Share | Net Income | Shares | Per Share |
| Basic income per share: | | | | | | |
| Net income available to common shareholders | \$634,421 | 11,159,075 | \$0.06 | \$264,923 | 11,115,346 | \$0.02 |
| Effect of dilutive securities | | | | | | |
| Stock options | - | - | - | - | 12,468 | - |
| Diluted income per share | \$634,421 | 11,159,075 | \$0.06 | \$264,923 | 11,127,814 | \$0.02 |

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, 2018 | | For the Six Months Ended December 31, 2018 | |
|--------------|----------------------------------------------------------|---------|-----------------------------------------------------|---------|
| | 2017 | | 2017 | |
| Share Grants | 126,083 | 285,956 | 126,083 | 285,956 |
| | 126,083 | 285,956 | 126,083 | 285,956 |

NOTE 5 – OTHER COMPREHENSIVE INCOME AND FOREIGN CURRENCY:

The accounts of NTE, AEL, VLSH and VLS use the British Pound; VLSIL uses the Euro; NetSol PK, Connect, and NetSol Innovation use the Pakistan Rupee; NTPK Thailand and NetSol Thai use the Thai Baht; Australia uses the Australian dollar; and NetSol Beijing uses the Chinese Yuan as the functional currencies. NetSol Technologies, Inc., and its subsidiary, NTA, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Accumulated translation losses classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet were \$28,446,811 and \$24,836,071 as of December 31, 2018 and June 30, 2018, respectively. During the three and six months ended December 31, 2018, comprehensive income (loss) in the consolidated statements of comprehensive income (loss) included a translation loss attributable to NetSol of \$3,797,537 and \$4,060,740, respectively. During the three and six months ended December 31, 2017, comprehensive income (loss) in the consolidated statements of comprehensive income (loss) included a translation loss attributable to NetSol of \$1,612,881 and \$2,201,460, respectively.

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NOTE 6 – RELATED PARTY TRANSACTIONS

NetSol-Innovation

In November 2004, the Company entered into a joint venture with 1insurer, formerly *Innovation Group*, called NetSol-Innovation. NetSol-Innovation provides support services to 1insurer. During the three and six months ended December 31, 2018, NetSol Innovation provided services of \$nil and \$67,286, respectively. During the three and six months ended December 31, 2017, NetSol Innovation provided services of \$796,757 and \$1,928,513, respectively. Accounts receivable at December 31, 2018 and June 30, 2018 were \$2,302,065 and \$2,521,533, respectively.

Investec Asset Finance

In October 2011, NTE entered into an agreement with Investec Asset Finance to acquire VLS. NTE and VLS provide support services to Investec. During the three and six months ended December 31, 2018, NTE and VLS provided license, maintenance and services of \$238,539 and \$391,879, respectively. During the three and six months ended December 31, 2017, NTE and VLS provided license, maintenance and services of \$442,699 and \$1,043,891, respectively. Accounts receivable at December 31, 2018 and June 30, 2018 were \$116,775 and \$379,521, respectively.

NOTE 7 – MAJOR CUSTOMERS

The Company is a strategic business partner for Daimler Financial Services (which consists of a group of many companies in different countries). During the six months ended December 31, 2018, revenues earned from Daimler Financial Services were 31.6% of net revenues, consisting of license, maintenance and services revenue of

\$1,868,254, \$1,363,117 and \$7,331,991, respectively. During the six months ended December 31, 2017, revenues earned were 35.9% of net revenues, consisting of license, maintenance and services revenue of \$Nil, \$1,302,219 and \$8,486,970, respectively. The revenue from this customer is shown in the Asia – Pacific segment.

Accounts receivable at December 31, 2018 and June 30, 2018, were \$4,431,075 and \$4,417,709, respectively. Revenues in excess of billings at December 31, 2018 and June 30, 2018 was \$5,513,906 and \$12,508,815, respectively. Included in this amount was \$Nil and \$1,206,669 shown as long term at December 31, 2018 and June 30, 2018, respectively.

On December 21, 2015, the Company entered into a 10-year contract with Daimler Financial Services to provide license, maintenance and services for 12 countries in the Asia Pacific Region. The implementation phase is expected to be over a five-year period with maintenance and support over 10 years. The contract is a fixed fee arrangement with total license and maintenance fees of approximately €71,000,000 (approximately \$81,609,195) with services to be separately agreed upon and billed as they are performed. The customer will make fixed annual payments of €5,850,000 (approximately \$6,724,138) for years 1-5 and €8,350,000 (approximately \$9,597,701) for years 6-10. Under the terms of the contract, the customer has the right to withdraw from certain modules and terminate the agreement as to certain countries based on good cause or business reasons prior to the beginning of implementation.

On September 4, 2017, the Company amended the agreement which provided for an additional €7,700,000 (approximately \$8,850,575) to be earned over the remaining life of the contract. The amended agreement provided for €7,000,000 (approximately \$8,045,977) to be paid in the fiscal year 2018 with €100,000 (approximately \$114,943) to be paid each year over the remaining seven years.

NOTE 8 – CONVERTIBLE NOTE RECEIVABLE – RELATED PARTY

Convertible Note Receivable - May 25, 2017

The Company entered into an agreement with WRLD3D, whereby the Company was issued a Convertible Promissory Note (the “Convertible Note”) which was fully executed on May 25, 2017. The maximum principal amount of the Convertible Note is \$750,000, and as of June 30, 2018, the Company had disbursed \$750,000. The Convertible Note bears interest at 5% per annum and all unpaid interest and principal is due and payable upon the Company’s request on or after February 1, 2018. The Company has a security interest in all of WRLD3D’s personal property, inventory, equipment, general intangibles, financial assets, investment property, securities, deposit accounts, and the proceeds thereof.

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The Convertible Note is convertible upon the occurrence of the following events:

1. Upon a qualified financing which is an equity financing of at least \$2,000,000.
2. Optionally, upon an equity financing less than \$2,000,000.
3. Optionally after the maturity date.
4. Upon a change of control.

The Convertible Note is convertible into Series BB Preferred shares at the lesser of (i) the price paid per share for the equity security by the investors in the qualified financing and (ii) \$0.6788 per share (adjusted for any stock dividends, combinations, splits, recapitalizations or the like with respect to WRLD3D's Series BB Preferred Stock after the date of the Convertible Note).

The Company has accrued interest of \$54,003 and \$35,099 at December 31, 2018 and June 30, 2018, respectively, which is included in "Other current assets".

Convertible Note Receivable – February 9, 2018

The Company's subsidiary NetSol Thai entered into an agreement with WRLD3D, whereby NetSol Thai was issued a Convertible Promissory Note (the "Thai Convertible Note") which was fully executed on February 9, 2018. The maximum principal amount of the Thai Convertible Note is \$2,500,000, and as of December 31, 2018, NetSol Thai had disbursed \$2,406,500. The Thai Convertible Note bears interest at 10% per annum and all unpaid interest and principal is due and payable upon request on or after March 31, 2019. The Company has a security interest in all of WRLD3D's personal property, inventory, equipment, general intangibles, financial assets, investment property, securities, deposit accounts, and the proceeds thereof.

The Thai Convertible Note is convertible upon the occurrence of the following events:

1. Conversion upon a qualified financing which is an equity financing of at least \$1,000,000.
2. Optional conversion upon an equity financing less than \$1,000,000.
3. Optional conversion after the maturity date.
4. Change of control.

If the Company converts the Thai Convertible Note upon the occurrence of a financing, then the conversion price will be equal to the product of: (A) the price paid per share for the equity securities by the investors multiplied by (B) 70%.

If the Company converts the Thai Convertible Note either as an optional conversion after the maturity date or due to a change of control, then the conversion price is equal to \$0.6788 per share (adjusted for any stock dividends, combinations, splits, recapitalizations or the like with respect to WRLD3D's Series BB Preferred Stock after the date of the Thai Convertible Note).

The Company has accrued interest of \$126,853 and \$23,593 at December 31, 2018 and June 30, 2018, respectively, which is included in "Other current assets."

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NOTE 9 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

| | As of December 31, 2018 | As of June 30, 2018 |
|--------------------|----------------------------------|---------------------------|
| Prepaid Expenses | \$869,183 | \$662,431 |
| Advance Income Tax | 845,411 | 838,799 |
| Employee Advances | 412,929 | 48,096 |
| Security Deposits | 96,630 | 85,249 |
| Other Receivables | 822,667 | 497,632 |
| Other Assets | 1,046,101 | 570,825 |
| Total | \$4,092,921 | \$2,703,032 |

NOTE 10 – REVENUES IN EXCESS OF BILLINGS – LONG TERM

Revenues in excess of billings, net consisted of the following:

| As of December 31, 2018 | As of June 30, 2018 |
|----------------------------------|---------------------------|
|----------------------------------|---------------------------|

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| | | | |
|-------------------------------------------|----|---|-------------|
| Revenues in excess of billing - long term | \$ | - | \$1,445,245 |
| Present value discount | | - | (238,576) |
| Net Balance | \$ | - | \$1,206,669 |

Pursuant to revenue recognition for contract accounting, the Company had recorded revenues in excess of billings long-term for amounts billable after one year. During the three and six months ended December 31, 2017, the Company accreted \$59,272 and \$110,994, respectively, which was recorded in interest income for that period. The Company used the discounted cash flow method with interest rates ranging from 3.87% to 4.43%.

NOTE 11 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | As of December 31, 2018 | As of June 30, 2018 |
|--------------------------------|----------------------------------|---------------------------|
| Office Furniture and Equipment | \$3,320,282 | \$3,496,653 |
| Computer Equipment | 21,293,119 | 23,708,034 |
| Assets Under Capital Leases | 1,498,521 | 1,479,976 |
| Building | 7,013,449 | 8,005,351 |
| Land | 1,823,734 | 2,088,463 |
| Autos | 1,056,694 | 1,053,749 |
| Improvements | 158,584 | 324,023 |
| Subtotal | 36,164,383 | 40,156,249 |
| Accumulated Depreciation | (22,158,842) | (23,990,758) |
| Property and Equipment, Net | \$14,005,541 | \$16,165,491 |

For the three months ended December 31, 2018, depreciation expense totaled \$533,837 and \$1,097,965, respectively. Of these amounts, \$340,058 and \$691,954, respectively, are reflected in cost of revenues. For the three and six months ended December 31, 2017, depreciation expense totaled \$707,668 and \$1,436,327, respectively. Of these amounts, \$484,883 and \$967,669, respectively, are reflected in cost of revenues.

Following is a summary of fixed assets held under capital leases as of December 31, 2018 and June 30, 2018:

| | As of December 31, | As of June 30, |
|--|--------------------------|-------------------|
|--|--------------------------|-------------------|

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| | 2018 | 2018 |
|--------------------------------------|-------------|-------------|
| Computers and Other Equipment | \$262,677 | \$228,581 |
| Furniture and Fixtures | 65,084 | 65,084 |
| Vehicles | 1,170,760 | 1,186,311 |
| Total | 1,498,521 | 1,479,976 |
| Less: Accumulated Depreciation - Net | (473,630) | (477,620) |
| | \$1,024,891 | \$1,002,356 |

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NOTE 12 – LONG TERM INVESTMENT

On March 2, 2017, the Company purchased a 4.9% interest in WRLD3D, a non-public company, for \$1,111,111. The Company paid \$555,556 at the initial closing and \$555,555 on September 1, 2017. NetSol PK, the subsidiary of the Company, purchased a 12.2% investment in WRLD3D, for \$2,777,778 which will be earned over future periods by providing IT and enterprise software solutions. Per the agreement, NetSol PK is to provide a minimum of \$200,000 of services in each three-month period and the entire balance is required to be provided within three years of the date of the agreement. If NetSol PK fails to provide the future services, it may be required to forfeit the shares back to WRLD3D. As of June 30, 2018, the investment earned by NetSol PK was \$2,777,778.

In connection with the investment, the Company and NetSol PK received a warrant to purchase preferred stock of WRLD3D which included the following key terms and features:

The warrants are exercisable into shares of the “Next Round Preferred”, only if and when the Next Round Preferred is issued by WRLD3D in a “Qualified Financing”.

The warrants expire on March 2, 2020.

“Next Round Preferred” is defined as occurring if WRLD3D’s preferred stock (or securities convertible into preferred stock) are issued in a Qualified Financing that occurs after March 2, 2016.

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

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

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

- a) 70% of the per share price of the Next Round Preferred sold in a Qualified Financing, or
25,000,000 divided by the total number of shares of common stock outstanding immediately prior to the Qualified Financing (on a fully-diluted basis, excluding the number of common stock shares issuable upon the exercise of any given warrant).
- b) Financing (on a fully-diluted basis, excluding the number of common stock shares issuable upon the exercise of any given warrant).

The Company determined that it met the significant influence criteria since the CEO of WRLD3D is the son of the CEO, Najeeb Ghauri, and also an employee of the Company; therefore, the Company accounts for the investment using equity method of accounting.

During the three months and six months ended December 31, 2018, NetSol PK provided services valued at \$174,492 and \$337,337, respectively, which is recorded as services-related party. During the three and six months ended December 31, 2017, NetSol PK provided services valued at \$315,408 and \$583,708, respectively. Accounts receivable at December 31, 2018 and June 30, 2018 were \$525,450 and \$473,218, respectively. Revenue in excess of billing at December 31, 2018 and June 30, 2018 were \$62,323 and \$Nil, respectively.

Under the equity method of accounting, the Company recorded its share of net loss of \$298,293 and \$597,984 for the three and six months ended December 31, 2018, respectively, and the Company recorded its share of net loss of \$203,336 and \$270,898 for the three and six months ended December 31, 2017, respectively.

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2018****(UNAUDITED)****NOTE 13 - INTANGIBLE ASSETS**

Intangible assets consisted of the following:

| | As of December 31, 2018 | As of June 30, 2018 |
|----------------------------------|----------------------------------|---------------------------|
| Product Licenses - Cost | \$47,244,997 | \$47,244,997 |
| Effect of Translation Adjustment | (11,645,937) | (7,857,270) |
| Accumulated Amortization | (25,962,050) | (27,140,531) |
| Net Balance | \$9,637,010 | \$12,247,196 |

(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 \$9,637,010 will be amortized over the next 4.75 years. Amortization expense for the three and six months ended December 31, 2018 was \$539,990 and \$1,125,698, respectively. Amortization expense for the three and six months ended December 31, 2017 was \$683,220 and \$1,373,547, respectively.

(B) Future Amortization

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

Year ended:

| | |
|-------------------|-------------|
| December 31, 2019 | \$2,086,530 |
| December 31, 2020 | 2,086,530 |
| December 31, 2021 | 2,086,530 |
| December 31, 2022 | 2,086,530 |
| December 31, 2023 | 1,290,890 |
| | \$9,637,010 |

NOTE 14 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

| | As of December 31, 2018 | As of June 30, 2018 |
|-------------------------|----------------------------------|---------------------------|
| Accounts Payable | \$1,674,687 | \$1,665,865 |
| Accrued Liabilities | 4,939,808 | 5,505,312 |
| Accrued Payroll & Taxes | 438,935 | 302,640 |
| Taxes Payable | 265,873 | 233,959 |
| Other Payable | 149,681 | 166,033 |
| Total | \$7,468,984 | \$7,873,809 |

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NOTE 15 – DEBTS

Notes payable and capital leases consisted of the following:

| Name | As of December 31, 2018 | | |
|-----------------------------------------|-------------------------|--------------------|----------------------|
| | Total | Current Maturities | Long-Term Maturities |
| D&O Insurance | (1) \$ 112,820 | \$ 112,820 | \$ - |
| Bank Overdraft Facility | (2) - | - | - |
| Loan Payable Bank - Export Refinance | (3) 3,586,801 | 3,586,801 | - |
| Loan Payable Bank - Running Finance | (4) - | - | - |
| Loan Payable Bank - Export Refinance II | (5) 2,510,760 | 2,510,760 | - |
| Loan Payable Bank - Running Finance II | (6) 1,076,040 | 1,076,040 | - |
| | 7,286,421 | 7,286,421 | - |
| Subsidiary Capital Leases | (7) 686,478 | 341,005 | 345,473 |
| | \$7,972,899 | \$7,627,426 | \$ 345,473 |

| Name | As of June 30, 2018 | | |
|-----------------------------------------|---------------------|--------------------|----------------------|
| | Total | Current Maturities | Long-Term Maturities |
| D&O Insurance | (1) \$ 69,578 | \$ 69,578 | \$ - |
| Bank Overdraft Facility | (2) - | - | - |
| Loan Payable Bank - Export Refinance | (3) 4,107,451 | 4,107,451 | - |
| Loan Payable Bank - Running Finance | (4) - | - | - |
| Loan Payable Bank - Export Refinance II | (5) 2,875,216 | 2,875,216 | - |
| Loan Payable Bank - Running Finance II | (6) 1,232,235 | 1,232,235 | - |
| | 8,284,480 | 8,284,480 | - |
| Subsidiary Capital Leases | (7) 642,035 | 311,439 | 330,596 |

\$8,926,515 \$8,595,919 \$330,596

(1) The Company finances Directors' and Officers' ("D&O") liability insurance and Errors and Omissions ("E&O") liability insurance, for which the D&O and E&O balances are renewed on an annual basis and, as such, are recorded in current maturities. The interest rate on these financings were ranging from 5.2% to 6.5% as of December 31, 2018 and June 30, 2018.

(2) The Company's subsidiary, NTE, has an overdraft facility with HSBC Bank plc whereby the bank would cover any overdrafts up to £300,000, or approximately \$379,747. The annual interest rate was 5.1% as of December 31, 2018. Total outstanding balance as of December 31, was £Nil.

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 December 31, 2018, 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. 500,000,000 or \$3,586,801 and Rs. 500,000,000 or \$4,107,451 at December 31, 2018 and June 30, 2018, respectively. The interest rate for the loan was 3% at December 31, 2018 and June 30, 2018.

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(UNAUDITED)

(4) The Company's subsidiary, NetSol PK, has a running finance facility with Askari Bank Limited, secured by NetSol PK's assets. Total facility amount is Rs. 75,000,000 or \$538,020, at December 31, 2018. NetSol PK used Rs. Nil or \$Nil, at December 31, 2018. The interest rate for the loan was 10.3% at December 31, 2018.

This facility requires NetSol PK to maintain a long-term debt equity ratio of 60:40 and the current ratio of 1:1. As of December 31, 2018, NetSol PK was in compliance with this covenant.

(5) The Company's subsidiary, NetSol PK, has an export refinance facility with Samba Bank Limited, secured by NetSol PK's assets. This is a revolving loan that matures every six months. Total facility amount is Rs. 350,000,000 or \$2,510,760 and Rs. 350,000,000 or \$2,875,216, at December 31, 2018 and June 30, 2018, respectively. The interest rate for the loan was 3% at December 31, 2018 and June 30, 2018.

(6) The Company's subsidiary, NetSol PK, has a running finance facility with Samba Bank Limited, secured by NetSol PK's assets. Total facility amount is Rs. 150,000,000 or \$1,076,040 and Rs. 150,000,000 or \$1,232,235, at December 31, 2018 and June 30, 2018, respectively. The interest rate for the loan was 11.8% and 8.1% at December 31, 2018 and June 30, 2018, respectively.

During the tenure of loan, the facilities from Samba Bank Limited require NetSol PK to maintain at a minimum a current ratio of 1:1, an interest coverage ratio of 4 times, a leverage ratio of 2 times, and a debt service coverage ratio of 4 times. As of December 31, 2018, NetSol PK was in compliance with these covenants.

(7) The Company leases various fixed assets under capital lease arrangements expiring in various years through 2022. 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, 2018 and 2017.

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Following is the aggregate minimum future lease payments under capital leases as of December 31, 2018:

| | Amount |
|---------------------------------------------|------------|
| Minimum Lease Payments | |
| Due FYE 12/31/19 | \$ 390,327 |
| Due FYE 12/31/20 | 245,711 |
| Due FYE 12/31/21 | 128,684 |
| Total Minimum Lease Payments | 764,722 |
| Interest Expense relating to future periods | (78,244) |
| Present Value of minimum lease payments | 686,478 |
| Less: Current portion | (341,005) |
| Non-Current portion | \$345,473 |

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NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

NOTE 16 - STOCKHOLDERS' EQUITY

During the six months ended December 31, 2018, the Company issued 29,678 shares of common stock for services rendered by officers of the Company. These shares were valued at the fair market value of \$183,009.

During the six months ended December 31, 2018, the Company issued 20,835 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 \$118,617.

During the six months ended December 31, 2018, the Company issued 91,328 shares of its common stock to employees pursuant to the terms of their employment agreements valued at \$561,112.

During the six months ended December 31, 2018, the Company adjusted the opening balance of retained earnings on adoption of the new revenue recognition standard ASC 606. Total adjustment was \$8,753,655 of which \$5,795,795 adjusted against the Company's retained earnings and \$2,957,860 were adjusted against non-controlling interest.

A summary of the changes in equity for the six months ended December 31, 2018 is provided below:

| | Common Stock Shares | Amount | Additional Paid-in Capital | Treasury Shares | Accumulated Deficit | Stock Sub- scriptions Receivable | Shares to be Issued | Other Compre- hensive Loss | No Co Int |
|------------------------|------------------------|------------|----------------------------------|--------------------|------------------------|-------------------------------------------|------------------------|-------------------------------------|-----------------|
| Balance at June 30, | 11,708,469 | \$ 117,085 | \$ 126,479,147 | \$(1,205,024) | \$(37,994,502) | \$ (221,000) | \$ - | \$(24,386,071) | \$ 1 |

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| | | | | | | | | | |
|--------------------------------------------------------|------------|-----------|---------------|---------------|----------------|-------------|----------|----------------|-------------|
| 2018 | | | | | | | | | |
| Adjustment in retained earnings on adoption of ASC 606 | - | - | - | - | (5,795,795) | - | - | - | (2,000,000) |
| Exercise of subsidiary common stock options | - | - | (6,629) | - | - | - | - | - | 9,000 |
| Common stock issued for: | | | | | | | | | |
| Services | 73,891 | 739 | 445,801 | - | - | - | - | - | - |
| Equity component shown as current liability at | | | | | | | | | |
| June 30, 2018 | - | - | - | - | - | - | 88,324 | - | - |
| September 30, 2018 | - | - | - | - | - | - | (88,324) | - | - |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (263,203) | (2,000,000) |
| Net income for the year | - | - | - | - | 962,589 | - | - | - | 3,000,000 |
| Balance at September 30, 2018 | 11,782,360 | \$117,824 | \$126,918,319 | \$(1,205,024) | \$(42,827,708) | \$(221,000) | \$- | \$(24,649,274) | \$1,000,000 |

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Shares | Accumulated Deficit | Stock Subscriptions Receivable | Shares to be Issued | Other Comprehensive Loss |
|----------------------------------|---------------------|---------------------|----------------------------|-----------------|---------------------|--------------------------------|---------------------|--------------------------|
| Balance at September 30, 2018 | 11,782,360 | \$117,824 | \$126,918,319 | \$(1,205,024) | \$(42,827,708) | \$(221,000) | \$- | \$(24,649,274) |
| Exercise of common stock options | 10,000 | 100 | 64,900 | - | - | - | - | - |
| Common stock issued for: | | | | | | | | |
| Services | 67,950 | 679 | 415,519 | - | - | - | - | - |
| Equity component | | | | | | | | |

| | | | | | | | | |
|-------------------|------------|-----------|---------------|---------------|----------------|-------------|----------|----------------|
| shown as | | | | | | | | |
| current liability | | | | | | | | |
| at | | | | | | | | |
| September 30, | - | - | - | - | - | - | 88,324 | - |
| 2018 | | | | | | | | |
| December 31, | - | - | - | - | - | - | (88,324) | - |
| 2018 | | | | | | | | |
| Dividend to | - | - | - | - | - | - | - | - |
| non-controlling | | | | | | | | |
| interest | | | | | | | | |
| Foreign | | | | | | | | |
| currency | - | - | - | - | - | - | - | (3,797,537) |
| translation | | | | | | | | |
| adjustment | | | | | | | | |
| Net income for | - | - | - | - | 2,855,629 | - | - | - |
| the year | | | | | | | | |
| Balance at | | | | | | | | |
| December 31, | 11,860,310 | \$118,603 | \$127,398,738 | \$(1,205,024) | \$(39,972,079) | \$(221,000) | \$- | \$(28,446,811) |
| 2018 | | | | | | | | |

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(UNAUDITED)

A summary of the changes in equity for the six months ended December 31, 2017 is provided below:

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Shares | Accumulated Deficit | Stock Sub- scriptions Receivable | Shares to be Issued | Other Compre- hensive Loss |
|------------------------------------------------|------------------------|------------------------|----------------------------------|--------------------|------------------------|-------------------------------------------|------------------------|-------------------------------------|
| Balance at June 30, 2017 | 11,225,385 | \$ 112,254 | \$ 124,409,998 | \$(454,310) | \$(42,301,390) | \$(297,511) | \$- | \$(18,074,570) |
| Exercise of common stock options | 35,773 | 358 | 138,442 | - | - | - | - | - |
| Common stock issued for: | | | | | | | | |
| Services | 71,971 | 719 | 438,589 | - | - | - | - | - |
| Purchase of treasury shares | - | - | - | (500,663) | - | - | - | - |
| Equity component shown as current liability at | | | | | | | | |
| June 30, 2017 | - | - | - | - | - | - | 88,324 | - |
| September 30, 2017 | - | - | - | - | - | - | (88,324) | - |
| Payment received for stock subscription | - | - | - | - | - | 23,585 | - | - |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (588,579) |
| Net income (loss) for the year | - | - | - | - | (369,498) | - | - | - |
| Balance at September 30, 2017 | 11,333,129 | \$ 113,331 | \$ 124,987,029 | \$(954,973) | \$(42,670,888) | \$(273,926) | \$- | \$(18,663,149) |

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| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Shares | Accumulated Deficit | Stock Sub- scriptions Receivable | Shares to be Issued | Other Compre- hensive Loss |
|------------------------------------------------------------|------------------------|------------------------|----------------------------------|--------------------|------------------------|-------------------------------------------|------------------------|-------------------------------------|
| Balance at September 30, 2017 | 11,333,129 | \$ 113,331 | \$ 124,987,029 | \$(954,973) | \$(42,670,888) | \$(273,926) | \$- | \$(18,663,149) |
| Exercise of subsidiary common stock options | - | - | (16,600) | - | - | - | - | - |
| Common stock issued for: | | | | | | | | |
| Services | 62,272 | 623 | 383,606 | - | - | - | - | - |
| Purchase of treasury shares | - | - | - | (100,357) | - | - | - | - |
| Equity component shown as current liability at | | | | | | | | |
| September 30, 2017 | - | - | - | - | - | - | 88,324 | - |
| December 31, 2017 | - | - | - | - | - | - | (88,324) | - |
| Dividend to non-controlling interest | - | - | - | - | - | - | - | - |
| Payment received for stock subscription | - | - | - | - | - | 52,926 | - | - |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (1,612,881) |
| Net income for the year | - | - | - | - | 634,421 | - | - | - |
| Balance at December 31, 2017 | 11,395,401 | \$ 113,954 | \$ 125,354,035 | \$(1,055,330) | \$(42,036,467) | \$(221,000) | \$- | \$(20,276,030) |

NOTE 17 - INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

Common stock purchase options consisted of the following:

OPTIONS:

| | # of shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregated Intrinsic Value |
|------------------------------------------------|----------------|------------------------------------------|-----------------------------------------------------------------------|----------------------------------|
| Outstanding and exercisable, June 30, 2018 | 53,462 | \$ 6.50 | 0.61 | \$ - |
| Granted | - | - | | |
| Exercised | (10,000) | \$ 6.50 | | |
| Expired / Cancelled | - | - | | |
| Outstanding and exercisable, December 31, 2018 | 43,462 | \$ 6.50 | 0.12 | \$ - |

NETSOL TECHNOLOGIES, INC.

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(UNAUDITED)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2018.

OPTIONS:

| Exercise Price | Number Outstanding and Exercisable | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |
|----------------|------------------------------------|---------------------------------------------|---------------------------------|
| \$ 6.50 | 43,462 | 0.12 | \$ 6.50 |
| Totals | 43,462 | 0.12 | \$ 6.50 |

The following table summarizes stock grants awarded as compensation:

| | # of shares | Weighted Average Grant Date Fair Value (\$) |
|-----------------------------|-------------|---------------------------------------------|
| Unvested, June 30, 2018 | 155,648 | \$ 6.07 |
| Granted | 112,276 | \$ 5.73 |
| Vested | (141,841) | \$ 6.08 |
| Unvested, December 31, 2018 | 126,083 | \$ 5.86 |

For the three and six months ended December 31, 2018, the Company recorded compensation expense of \$437,695 and \$869,743, respectively. For the three and six months ended December 31, 2017, the Company recorded compensation expense of \$405,721 and \$833,530, respectively. The compensation expense related to the unvested stock grants as of December 31, 2018 was \$704,420 which will be recognized during the fiscal years 2019 through 2022.

NOTE 18 – CONTINGENCIES

From time to time, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business including tax assessments. The Company defends itself vigorously against any such claims. When (i) it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, the Company records the estimated loss. The Company provides disclosure in the notes to the consolidated financial statements for loss contingencies that do not meet both conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. The Company bases accruals on the best information available at the time, which can be highly subjective. The final outcome of these matters could vary significantly from the amounts included in the accompanying consolidated financial statements.

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2018****(UNAUDITED)****NOTE 19 – OPERATING SEGMENTS**

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

The following table presents a summary of identifiable assets as of December 31, 2018 and June 30, 2018:

| | As of December 31, 2018 | As of June 30, 2018 |
|------------------------|----------------------------------|---------------------------|
| Identifiable assets: | | |
| Corporate headquarters | \$2,782,114 | \$2,839,049 |
| North America | 5,412,976 | 5,764,042 |
| Europe | 8,274,548 | 7,242,080 |
| Asia - Pacific | 71,675,744 | 83,929,110 |
| Consolidated | \$88,145,382 | \$99,774,281 |

The following table presents a summary of investment under equity method as of December 31, 2018 and June 30, 2018:

| | As of December 31, 2018 | As of June 30, 2018 |
|------------------------|----------------------------------|---------------------------|
| Investment in WRLD3D: | | |
| Corporate headquarters | \$767,284 | \$918,628 |
| Asia - Pacific | 1,921,721 | 2,298,534 |
| Consolidated | \$2,689,005 | \$3,217,162 |

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

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

| | For the Three Months Ended December 31, | | For the Six Months Ended December 31, | |
|--------------------------------------------------------------------|--------------------------------------------|---------------|------------------------------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues from unaffiliated customers: | | | | |
| North America | \$977,450 | \$1,287,638 | \$1,820,535 | \$2,135,710 |
| Europe | 1,904,971 | 1,661,213 | 3,671,565 | 3,109,037 |
| Asia - Pacific | 13,750,460 | 9,942,720 | 27,153,855 | 18,464,352 |
| | 16,632,881 | 12,891,571 | 32,645,955 | 23,709,099 |
| Revenue from affiliated customers | | | | |
| Europe | 195,254 | 442,699 | 348,594 | 1,043,891 |
| Asia - Pacific | 174,492 | 1,112,165 | 404,623 | 2,512,221 |
| | 369,746 | 1,554,864 | 753,217 | 3,556,112 |
| Consolidated | \$17,002,627 | \$14,446,435 | \$33,399,172 | \$27,265,211 |
| Intercompany revenue | | | | |
| Europe | \$157,677 | \$139,228 | \$296,330 | \$241,703 |
| Asia - Pacific | 2,305,472 | 768,431 | 5,497,858 | 1,145,368 |
| Eliminated | \$2,463,149 | \$907,659 | \$5,794,188 | \$1,387,071 |
| Net income (loss) after taxes and before non-controlling interest: | | | | |
| Corporate headquarters | \$(1,142,067) | \$(1,258,717) | \$(2,360,454) | \$(2,296,641) |
| North America | (155,550) | 65,194 | (334,180) | (230,452) |
| Europe | 231,845 | 180,655 | 405,933 | 280,045 |
| Asia - Pacific | 5,396,756 | 2,674,870 | 7,900,820 | 3,727,785 |
| Consolidated | \$4,330,984 | \$1,662,002 | \$5,612,119 | \$1,480,737 |

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

For the Six Months
Ended December 31,
2018 2017

Capital expenditures:

| | | |
|----------------|-------------|-----------|
| North America | \$1,383 | \$- |
| Europe | 217,401 | 123,335 |
| Asia – Pacific | 1,222,453 | 419,788 |
| Consolidated | \$1,441,237 | \$543,123 |

NETSOL TECHNOLOGIES, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2018****(UNAUDITED)****NOTE 20 – NON-CONTROLLING INTEREST IN SUBSIDIARY**

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

| SUBSIDIARY | Non-Controlling Interest % | Non-Controlling Interest at December 31, 2018 |
|----------------------------|-------------------------------|--------------------------------------------------------|
| NetSol PK | 33.80 | % \$ 7,967,841 |
| NetSol-Innovation | 49.90 | % 1,546,797 |
| VLS, VLSH & VLSIL Combined | 49.00 | % 722,821 |
| NetSol Thai | 0.006 | % (13) |
| Total | | \$ 10,237,446 |

| SUBSIDIARY | Non-Controlling Interest % | Non-Controlling Interest at June 30, 2018 |
|----------------------------|-------------------------------|-------------------------------------------------|
| NetSol PK | 33.79 | % \$ 11,873,029 |
| NetSol-Innovation | 49.90 | % 1,699,661 |
| VLS, VLHS & VLSIL Combined | 49.00 | % 573,742 |
| NetSol Thai | 0.006 | % (15) |
| Total | | \$ 14,146,417 |

NetSol PK

During the six months ended December 31, 2018, employees of NetSol PK exercised 20,000 options of common stock and NetSol PK received cash of \$2,650. Due to the exercise of options, the non-controlling interest increased from 33.79% to 33.80%. During the six months ended December 31, 2018, NetSol PK paid a cash dividend of \$1,675,936.

During the six months ended December 31, 2017, employees of NetSol PK exercised 50,000 of options of common stock pursuant to employees exercising stock options and NetSol PK received cash of \$7,755 resulting in an increase in non-controlling interest from 33.80% to 33.83%. During the six months ended December 31, 2017, NetSol PK paid a cash dividend of \$1,234,991.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in an understanding of the Company's financial position and results of operations for the three and six months ended December 31, 2018. 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, 2018, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Our website is located at www.netsoltech.com, and our investor relations website is located at <http://ir.netsoltech.com>. The following filings are available through our investor relations website after we file with the SEC: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements for our annual meetings of stockholders. These filings are also available for download free of charge on our investor relations website. We also provide a link to the section of the SEC's website at www.sec.gov that has all of our public filings, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, our Proxy Statements and other ownership related filings. Further, a copy of this Quarterly Report on Form 10-Q is located at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations website and on social media platforms linked to our corporate website. Investors and others can receive notifications of new information posted on our investor relations website by signing up for e-mail alerts. Further corporate governance information, including our committee charters and code of conduct, is also available on our investor relations website at <http://ir.netsoltech.com/governance-docs>. The content of our websites is not intended to be incorporated by reference into this or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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 clients, as they encapsulate end-to-end business processes, facilitating faster processing and increased transactions.

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

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

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

| | |
|---------------|-------------------------------------------------------|
| North America | Los Angeles Area |
| Europe | London Metropolitan area |
| Asia Pacific | Lahore, Karachi, Bangkok, Beijing, Jakarta and Sydney |

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

NFS Ascent™

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

NFS Digital

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

LeasePak

In North America, NTA has and continues to develop the LeasePak CMS product. LeasePak streamlines the lease management lifecycle, enabling superior lease and loan portfolio management, flexible financial products (lease or loan terms) and sophisticated financial analysis and management to reducing operating costs and improve profits. 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 important partners in the asset-finance ecosystem, such as Vertex Series O.

LeasePak-SaaS

NTA also offers the LeasePak Software-as-a-Service (“SaaS”) business line, which provides high performance with a reduced total cost of ownership. SaaS offers a proven deployment option whereby customers only require access to the internet to use the software. With an elastic cloud price, revenue stream predictability and improved return on investment for customers, management believes that its SaaS customers will experience the performance, the reliability and the speed usually associated with a highly scalable private cloud. LeasePak-SaaS targets small and mid-sized leasing and finance companies.

LeaseSoft

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

Highlights

Listed below are a few of NetSol's major successes achieved in the six months ended December 31, 2018:

We signed a five-year contract with a tier-one auto captive finance company to implement our NFS Ascent™ platform in China. The five-year contract is valued at approximately \$30 million which includes license, services, and maintenance.

We signed a multi-million-dollar contract with a major American multinational automaker to implement our NFS Ascent™ Retail Platform in China.

We signed a contract with a leading U.S. power sports finance provider to implement our cloud enabled legacy product (LeasePak) and digital platform (mAccount).

We signed an additional contract in the U.K. with a notable auto finance company for our LeaseSoft product with a total contract value of approximately \$425K to be realized over three years.

We signed a SaaS contract with an automotive leasing company, who covers all of Canada for a key automotive brand, to provide access to the LeasePak Cloud product, and is expected to generate approximately \$500K in revenues over the contract period.

We successfully implemented our NFS Ascent™ Contract Management System in South Africa for Daimler Financial Services.

We successfully kicked off the implementation process of our NFS Ascent™ Wholesale module in Japan for Daimler Financial Services.

We started a data migration project for an existing customer which is expected to generate approximately \$500,000 over the next few months.

We further expanded our outreach in order to pave the way for NFS Ascent™ to effectively cater to the European market by establishing a new subsidiary and setting up an NFS Ascent™ focused office in London.

We further advanced our “Innovation Lab” initiative by dedicating additional resources to our teams in Pakistan and Thailand.

We received “First-Rate and Best-Selling Finance and Leasing Solution Provider” Award in China for the sixth consecutive year.

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:

Innovation in the auto sectors create opportunities for companies in that space:

Fast changing paradigms in auto sectors indicate encouraging revenue opportunities. An example is car generated data. According to a McKinsey & Company report "Monetizing Car Data" from Advanced Industries September 2016, data generated by, for example autonomous cars, vehicle connectivity and powertrain electrification present an overall revenue opportunity on a global scale of up to USD 450-750 Billion by 2030.

The new business models and ecosystems would be built on technological innovation using IoT, Big Data, and AI over a cryptographically secured decentralized network. According to IoT-now.com in a March 2018 article, amongst many opportunities, the use of these models allow automotive makers to update the vehicle's firmware, enable premium features, diagnose performance reporting problems and scheduling repairs all through the cloud.

Financial services are using artificial intelligence to gather data in order to provide an underwriting platform, that gives banks, and other credit institutions such as auto finance companies more transparency while cutting losses. According to industry players, auto lenders using machine-learning underwriting cut losses by 23% annually and more accurately predicted risk. See "AI and the bottom line: 14 examples of artificial intelligence in finance" BuiltIn.com December 4, 2018.

Benefits of having operations in Pakistan:

The IT talent pool in Pakistan is growing with increased quality education and training in science and technology. These efforts are led by notable universities: The National University of Science and Technology (“NUST”), Lahore University of Management Sciences (“LUMS”), and the Foundation for Advancement of Science and Technology (“FAST”). NUST alone has 16,000 enrolled full-time students for undergraduates, post graduates and PHD programs.

In Pakistan, we benefit in the bidding process by offering high-quality programmers, engineers, and developers at a discount compared with U.S. companies.

China investment or CPEC (China Pakistan Economic Corridor) is approximately \$62 billion from originally \$46 billion in Pakistan on energy and infrastructure projects.

General business trends:

Volkswagen, the top foreign brand in China, plans to invest about 4 billion euros (\$4.5 billion) in the country in 2019 together with partners. While U.S. carmaker, Ford, schedules its production on market demand and works closely with dealers to manage inventory, it does plan to bring five more vehicles for local production this year to further drive its growth in China (Bloomberg News, January 9, 2019).

The China Association of Automobile Manufacturers (CAAM) expects the market to be unchanged in 2019. While demand for gasoline cars wanes, rising sales of electric cars will probably help the overall market to avoid another slump, the association said in its outlook issued December 13, 2018 (Bloomberg News, January 9, 2019).

According to Statista research Pickup truck sales, in the US, continue to grow in 2019 to US\$98.328 million which shows the market almost doubled since 2010 (Financialnewsmedia.com February 5, 2019).

Continued interest from Fortune 500 multinational auto captives and global companies in NFS Ascent™.

Continuing interest from existing clients in the NFS™ systems in emerging and developing markets.

Negative trends:

Continued Global terrorism and extremism threats in European countries.

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.

Trade negotiations uncertainty between the US and its key trading partners; the impact of Brexit, populism and political uncertainty in key vehicle producing countries and markets.

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

Industry trend towards autonomous cars and its effect on the automotive industry.

Continued devaluation of the Pakistan Rupee.

CHANGES IN FINANCIAL CONDITION**Quarter Ended December 31, 2018 Compared to the Quarter Ended December 31, 2017**

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the quarter ended December 31, 2018 and 2017 as a percentage of revenues.

| | For the Three Months | | | |
|------------------------------------------------|----------------------|---------|------------|---------|
| | Ended December 31, | | | |
| | 2018 | % | 2017 | % |
| Net Revenues: | | | | |
| License fees | \$4,817,569 | 28.3 % | \$235,932 | 1.6 % |
| Maintenance fees | 3,534,693 | 20.8 % | 3,568,448 | 24.7 % |
| Services | 8,237,334 | 48.4 % | 9,087,191 | 62.9 % |
| License fees - related party | - | 0.0 % | 217,105 | 1.5 % |
| Maintenance fees - related party | 127,030 | 0.7 % | 101,251 | 0.7 % |
| Services - related party | 286,001 | 1.7 % | 1,236,508 | 8.6 % |
| Total net revenues | 17,002,627 | 100.0 % | 14,446,435 | 100.0 % |
| Cost of revenues: | | | | |
| Salaries and consultants | 4,497,054 | 26.4 % | 5,362,092 | 37.1 % |
| Travel | 1,706,182 | 10.0 % | 287,901 | 2.0 % |
| Depreciation and amortization | 880,048 | 5.2 % | 1,168,103 | 8.1 % |
| Other | 1,060,772 | 6.2 % | 939,986 | 6.5 % |
| Total cost of revenues | 8,144,056 | 47.9 % | 7,758,082 | 53.7 % |
| Gross profit | 8,858,571 | 52.1 % | 6,688,353 | 46.3 % |
| Operating expenses: | | | | |
| Selling and marketing | 2,048,303 | 12.0 % | 1,932,140 | 13.4 % |
| Depreciation and amortization | 193,779 | 1.1 % | 222,785 | 1.5 % |
| General and administrative | 4,002,059 | 23.5 % | 4,026,706 | 27.9 % |
| Research and development cost | 424,652 | 2.5 % | 189,891 | 1.3 % |
| Total operating expenses | 6,668,793 | 39.2 % | 6,371,522 | 44.1 % |
| Income from operations | 2,189,778 | 12.9 % | 316,831 | 2.2 % |
| Other income and (expenses) | | | | |
| Loss on sale of assets | (3,504) | 0.0 % | (8,939) | -0.1 % |
| Interest expense | (63,804) | -0.4 % | (109,675) | -0.8 % |
| Interest income | 230,421 | 1.4 % | 115,570 | 0.8 % |
| Gain on foreign currency exchange transactions | 2,536,755 | 14.9 % | 1,737,967 | 12.0 % |

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| | | | | |
|------------------------------------------|--------------|--------|--------------|--------|
| Share of net loss from equity investment | (298,293) | -1.8 % | (203,336) | -1.4 % |
| Other income | 4,503 | 0.0 % | 14,511 | 0.1 % |
| Total other income (expenses) | 2,406,078 | 14.2 % | 1,546,098 | 10.7 % |
| Net income before income taxes | 4,595,856 | 27.0 % | 1,862,929 | 12.9 % |
| Income tax provision | (264,872) | -1.6 % | (200,927) | -1.4 % |
| Net income | 4,330,984 | 25.5 % | 1,662,002 | 11.5 % |
| Non-controlling interest | (1,475,355) | -8.7 % | (1,027,581) | -7.1 % |
| Net income attributable to NetSol | \$2,855,629 | 16.8 % | \$634,421 | 4.4 % |

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A significant portion of our business is conducted in currencies other than the U.S. dollar. We operate in several geographical regions as described in Note 19 “Operating Segments” within the Notes to the Condensed Consolidated Financial Statements. Weakening of the value of the U.S. dollar compared to foreign currency exchange rates generally has the effect of increasing our revenues but also increasing our expenses denominated in currencies other than the U.S. dollar. Similarly, strengthening of the U.S. dollar compared to foreign currency exchange rates generally has the effect of reducing our revenues but also reducing our expenses denominated in currencies other than the U.S. dollar. We plan our business accordingly by deploying additional resources to areas of expansion, while continuing to monitor our overall expenditures given the economic uncertainties of our target markets. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the changes in results from one period to another period using constant currency. In order to calculate our constant currency results, we apply the current period results to the prior period foreign currency exchange rates. In the table below, we present the change based on actual results in reported currency and in constant currency.

| | For the Three Months Ended December 31, | | | | Favorable (Unfavorable) Change in Constant Currency | Favorable (Unfavorable) Change due to Currency Fluctuation | Total Favorable (Unfavorable) Change as Reported |
|-------------------------------|--------------------------------------------|--------|------------|--------|-----------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------|
| | 2018 | % | 2017 | % | | | |
| Net Revenues: | 17,002,627 | 100.0% | 14,446,435 | 100.0% | 5,515,529 | (2,959,337) | 2,556,192 |
| Cost of revenues: | 8,144,056 | 47.9 % | 7,758,082 | 53.7 % | (2,074,836) | 1,688,862 | (385,974) |
| Gross profit | 8,858,571 | 52.1 % | 6,688,353 | 46.3 % | 3,440,693 | (1,270,475) | 2,170,218 |
| Operating expenses: | 6,668,793 | 39.2 % | 6,371,522 | 44.1 % | (1,229,169) | 931,898 | (297,271) |
| Income (loss) from operations | 2,189,778 | 12.9 % | 316,831 | 2.2 % | 2,211,524 | (338,577) | 1,872,947 |

Net revenues for the quarter ended December 31, 2018 and 2017 are broken out among the segments as follows:

| | 2018 | | 2017 | |
|---------------|--------------|--------|--------------|--------|
| | Revenue | % | Revenue | % |
| North America | \$977,450 | 5.7 % | \$1,287,638 | 8.9 % |
| Europe | 2,100,225 | 12.4 % | 2,103,912 | 14.6 % |
| Asia-Pacific | 13,924,952 | 81.9 % | 11,054,885 | 76.5 % |
| Total | \$17,002,627 | 100.0% | \$14,446,435 | 100.0% |

Revenues

License fees

License fees for the three months ended December 31, 2018 were \$4,817,569 compared to \$235,932 for the three months ended December 31, 2017 reflecting an increase of \$4,581,637 with a change in constant currency of \$5,489,968. The increase in license revenue for the three months ended December 31, 2018 compared to 2017 is primarily due to the license revenue recognized with the five-year contract that was signed with a tier-one auto captive finance company to implement our NFS Ascent™ platform in China and the license revenue recognized with the contract signed with a major American multinational automaker to implement our NFA Ascent™ Retail Platform in China.

License fees – related party

License fees from related party for the three months ended December 31, 2018 were \$Nil compared to \$217,105 for the three months ended December 31, 2017 reflecting a decrease of \$217,105 with a change in constant currency of \$217,105.

Maintenance fees

Maintenance fees for the three months ended December 31, 2018 were \$3,534,693 compared to \$3,568,448 for the three months ended December 31, 2017 reflecting a slight decrease of \$33,755 with an increase in constant currency of \$527,950. Maintenance fees begin once a customer has “gone live” with our product. We anticipate maintenance fees to gradually increase as we implement both our NFS legacy product and NFS Ascent™.

Maintenance fees – related party

Maintenance fees from related party for the three months ended December 31, 2018 were \$127,030 compared to \$101,251 for the three months ended December 31, 2017 reflecting a slight increase of \$25,779 with a change in constant currency of \$30,860.

Services

Services income for the three months ended December 31, 2018 was \$8,237,334 compared to \$9,087,191 for the three months ended December 31, 2017 reflecting a decrease of \$849,857 with an increase in constant currency of \$562,459. The services revenue increased on a constant currency basis due to the new NFS Ascent implementations. 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.

Services – related party

Services income from related party for the three months ended December 31, 2018 was \$286,001 compared to \$1,236,508 for the three months ended December 31, 2017 reflecting a decrease of \$950,507 with a change in constant currency of \$900,271. The decrease in related party service revenue is due to a decrease in revenue from our joint venture with insurer of approximately \$796,757 and \$140,916 in service revenue related to services performed for WRLD3D.

Gross Profit

The gross profit was \$8,858,571, for the three months ended December 31, 2018 as compared with \$6,688,353 for the three months ended December 31, 2017. This is an increase of \$2,170,218 with a change in constant currency of \$3,440,693. The gross profit percentage for the three months ended December 31, 2018 also increased to 52.1% from 46.3% for the three months ended December 31, 2017. The cost of sales was \$8,144,056 for the three months ended December 31, 2018 compared to \$7,758,082 for the three months ended December 31, 2017 for an increase of \$385,974 and on a constant currency basis an increase of \$2,074,836. As a percentage of sales, cost of sales decreased from 53.7% for the three months ended December 31, 2017 to 47.9% for the three months ended December 31, 2018.

Salaries and consultant fees decreased by \$865,038 from \$5,362,092 for the three months ended December 31, 2017 to \$4,497,054 for the three months ended December 31, 2018 and on a constant currency basis increased \$7,121. As a percentage of sales, salaries and consultant expense decreased from 37.12% for the three months ended December 31, 2017 to 26.5% for the three months ended December 31, 2018.

Depreciation and amortization expense decreased to \$880,048 compared to \$1,168,103 for the three months ended December 31, 2017 or a decrease of \$288,055 and on a constant currency basis a decrease of \$59,302. Depreciation and amortization expense decreased as some products became fully amortized.

Operating Expenses

Operating expenses were \$6,668,793 for the three months ended December 31, 2018 compared to \$6,371,522, for the three months ended December 31, 2017 for an increase of 4.7% or \$297,271 and on a constant currency basis an increase of 19.3% or \$1,229,169. As a percentage of sales, it decreased from 44.1% to 39.2%. The increase in operating expenses was primarily due to increases in salaries and wages, research and development and professional services offset by decrease in selling and marketing expenses, depreciation, and general and administrative expenses.

Selling and marketing expenses increased \$116,163 or 6.0% and on a constant currency basis an increased \$428,902 or 22.2%. The increase in selling and marketing expenses is due to commissions, travel expenses, and business development costs to market and sell NFS Ascent™ globally.

General and administrative expenses were \$4,002,059 for the three months ended December 31, 2018 compared to \$4,026,706 at December 31, 2017 or a decrease of \$24,647 or 0.6% and on a constant currency basis an increase of \$487,386 or 12.1%. During the three months ended December 31, 2018, salaries increased by approximately \$236,514 or \$475,277 on a constant currency basis due to annual raises, bonus and share grants, an increase in professional services of approximately \$58,821 or \$71,379 on a constant currency basis, offset by a decrease in other general and administrative expenses of approximately \$319,982 or \$59,270 on constant currency bases.

Income from Operations

Income from operations was \$2,189,778 for the three months ended December 31, 2018 compared to \$316,831 for the three months ended December 31, 2017. This represents an increase of \$1,872,947 with an increase of \$2,211,524 on a constant currency basis for the three months ended December 31, 2018 compared with the three months ended December 31, 2017. As a percentage of sales, income from operations was 12.9% for the three months ended December 31, 2018 compared to 2.2% for the three months ended December 31, 2017.

Other Income and Expense

Other income was \$2,406,078 for the three months ended December 31, 2018 compared with \$1,546,098 for the three months ended December 31, 2017. This represents an increase of \$859,980 with an increase of \$1,551,721 on a constant currency basis. The increase is primarily due to the foreign currency exchange transactions. The majority of the contracts with NetSol PK are either in U.S. dollars or Euros; therefore, the currency fluctuations will lead to

foreign currency exchange gains or losses depending on the value of the PKR compared to the U.S. dollar and the Euro. During the three months ended December 31, 2018, we recognized a gain of \$2,536,755 in foreign currency exchange transactions compared to \$1,737,967 for the three months ended December 31, 2017. During the three months ended December 31, 2018, the value of the U.S. dollar and the Euro increased 12.7% and 11.2%, respectively, compared to the PKR. During the three months ended December 31, 2017, the value of the U.S. dollar and the Euro increased 4.3% and 5.8%, respectively, compared to the PKR.

Non-controlling Interest

For the three months ended December 31, 2018 and 2017, the net income attributable to non-controlling interest was \$1,475,355 and \$1,072,581, respectively. The increase in non-controlling interest is primarily due to the increase in net income of NetSol PK offset by a decrease in net income of NetSol Innovation.

Net Income attributable to NetSol

Net income was \$2,855,629 for the three months ended December 31, 2018 compared to \$634,421 for the three months ended December 31, 2017. This is an increase of \$2,221,208 with an increase of \$2,830,214 on a constant currency basis, compared to the prior year. For the three months ended December 31, 2018, net income per share was \$0.25 for basic and diluted shares, respectively, compared to \$0.06 for basic and diluted shares for the three months ended December 31, 2017.

Six Months Ended December 31, 2018 Compared to the Six Months Ended December 31, 2017

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the six months ended December 31, 2018 and 2017 as a percentage of revenues.

| | For the Six Months Ended December 31, | | | |
|------------------------------------------------|------------------------------------------|---------|------------|---------|
| | 2018 | % | 2017 | % |
| Net Revenues: | | | | |
| License fees | \$10,773,682 | 32.3 % | \$561,998 | 2.1 % |
| Maintenance fees | 7,173,020 | 21.5 % | 7,042,173 | 25.8 % |
| Services | 14,655,968 | 43.9 % | 16,104,928 | 59.1 % |
| License fees - related party | - | 0.0 % | 261,513 | 1.0 % |
| Maintenance fees - related party | 228,379 | 0.7 % | 204,214 | 0.7 % |
| Services - related party | 568,123 | 1.7 % | 3,090,385 | 11.3 % |
| Total net revenues | 33,399,172 | 100.0 % | 27,265,211 | 100.0 % |
| Cost of revenues: | | | | |
| Salaries and consultants | 9,517,616 | 28.5 % | 10,826,252 | 39.7 % |
| Travel | 2,858,179 | 8.6 % | 801,013 | 2.9 % |
| Depreciation and amortization | 1,817,652 | 5.4 % | 2,341,216 | 8.6 % |
| Other | 2,109,096 | 6.3 % | 1,796,568 | 6.6 % |
| Total cost of revenues | 16,302,543 | 48.8 % | 15,765,049 | 57.8 % |
| Gross profit | 17,096,629 | 51.2 % | 11,500,162 | 42.2 % |
| Operating expenses: | | | | |
| Selling and marketing | 3,749,629 | 11.2 % | 3,643,436 | 13.4 % |
| Depreciation and amortization | 406,011 | 1.2 % | 468,658 | 1.7 % |
| General and administrative | 8,408,779 | 25.2 % | 7,814,264 | 28.7 % |
| Research and development cost | 742,807 | 2.2 % | 374,976 | 1.4 % |
| Total operating expenses | 13,307,226 | 39.8 % | 12,301,334 | 45.1 % |
| Income (loss) from operations | 3,789,403 | 11.3 % | (801,172) | -2.9 % |
| Other income and (expenses) | | | | |
| Gain (loss) on sale of assets | 48,790 | 0.1 % | (16,069) | -0.1 % |
| Interest expense | (163,238) | -0.5 % | (227,746) | -0.8 % |
| Interest income | 479,385 | 1.4 % | 252,481 | 0.9 % |
| Gain on foreign currency exchange transactions | 2,547,667 | 7.6 % | 2,754,329 | 10.1 % |
| Share of net loss from equity investment | (597,984) | -1.8 % | (270,898) | -1.0 % |
| Other income | 9,882 | 0.0 % | 15,610 | 0.1 % |
| Total other income (expenses) | 2,324,502 | 7.0 % | 2,507,707 | 9.2 % |
| Net income before income taxes | 6,113,905 | 18.3 % | 1,706,535 | 6.3 % |

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| | | | | |
|-----------------------------------|--------------|--------|--------------|--------|
| Income tax provision | (501,786) | -1.5 % | (225,798) | -0.8 % |
| Net income | 5,612,119 | 16.8 % | 1,480,737 | 5.4 % |
| Non-controlling interest | (1,793,901) | -5.4 % | (1,215,814) | -4.5 % |
| Net income attributable to NetSol | \$3,818,218 | 11.4 % | \$264,923 | 1.0 % |

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A significant portion of our business is conducted in currencies other than the U.S. dollar. We operate in several geographical regions as described in Note 19 “Operating Segments” within the Notes to the Condensed Consolidated Financial Statements. Weakening of the value of the U.S. dollar compared to foreign currency exchange rates generally has the effect of increasing our revenues but also increasing our expenses denominated in currencies other than the U.S. dollar. Similarly, strengthening of the U.S. dollar compared to foreign currency exchange rates generally has the effect of reducing our revenues but also reducing our expenses denominated in currencies other than the U.S. dollar. We plan our business accordingly by deploying additional resources to areas of expansion, while continuing to monitor our overall expenditures given the economic uncertainties of our target markets. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the changes in results from one period to another period using constant currency. In order to calculate our constant currency results, we apply the current period results to the prior period foreign currency exchange rates. In the table below, we present the change based on actual results in reported currency and in constant currency.

| | For the Year | | | | Favorable (Unfavorable) | Favorable (Unfavorable) Change due to | Total Favorable (Unfavorable) Change as Reported |
|-------------------------------|------------------------|--------|------------|--------|-----------------------------------|------------------------------------------------|--------------------------------------------------------------|
| | Ended June 30, 2018 | % | 2017 | % | Change in Constant Currency | Currency Fluctuation | |
| Net Revenues: | 33,399,172 | 100.0% | 27,265,211 | 100.0% | 10,998,634 | (4,864,673) | 6,133,961 |
| Cost of revenues: | 16,302,543 | 48.8 % | 15,765,049 | 57.8 % | (3,372,281) | 2,834,787 | (537,494) |
| Gross profit | 17,096,629 | 51.2 % | 11,500,162 | 42.2 % | 7,626,353 | (2,029,886) | 5,596,467 |
| Operating expenses: | 13,307,226 | 39.8 % | 12,301,334 | 45.1 % | (2,644,718) | 1,638,826 | (1,005,892) |
| Income (loss) from operations | 3,789,403 | 11.3 % | (801,172) | -2.9 % | 4,981,635 | (391,060) | 4,590,575 |

Net revenues for the six months ended December 31, 2018 and 2017 are broken out among the segments as follows:

| | 2018 | | 2017 | |
|---------------|--------------|--------|--------------|--------|
| | Revenue | % | Revenue | % |
| North America | \$1,820,535 | 5.5 % | \$2,135,710 | 7.8 % |
| Europe | 4,020,159 | 12.0 % | 4,152,928 | 15.2 % |
| Asia-Pacific | 27,558,478 | 82.5 % | 20,976,573 | 76.9 % |
| Total | \$33,399,172 | 100.0% | \$27,265,211 | 100.0% |

Revenues

License fees

License fees for the six months ended December 31, 2018 were \$10,773,682 compared to \$561,998 for the six months ended December 31, 2017 reflecting an increase of \$10,211,684 with a change in constant currency of \$11,829,362. The increase in license revenue for the fiscal six months ended December 31, 2018 compared to 2017 is primarily due to the license revenue recognized with the five-year contract that was signed with a tier-one auto captive finance company to implement our NFS Ascent™ platform in China and the license revenue recognized with the contract signed with a major American multinational automaker to implement our NFA Ascent™ Retail Platform in China.

License fees – related party

License fees from related party for the six months ended December 31, 2018 were \$nil compared to \$261,513 for the six months ended December 31, 2017 reflecting a decrease of \$261,513 with a change in constant currency of \$261,513.

Maintenance fees

Maintenance fees for the six months ended December 31, 2018 were \$7,173,020 compared to \$7,042,173 for the six months ended December 31, 2017 reflecting an increase of \$130,847 with a change in constant currency of \$1,000,914. Maintenance fees begin once a customer has “gone live” with our product. The decrease was due to some customers not renewing their maintenance agreements. We anticipate maintenance fees to gradually increase as we implement both our NFS legacy product and NFS Ascent™.

Maintenance fees – related party

Maintenance fees from related party for the six months ended December 31, 2018 were \$228,379 compared to \$204,214 for the six months ended December 31, 2017 reflecting an increase of \$24,165 with a change in constant currency of \$30,580. The increase was due to the fluctuation in usage of active users.

Services

Services income for the six months ended December 31, 2018 was \$14,655,968 compared to \$16,104,928 for the six months ended December 31, 2017 reflecting a decrease of \$1,448,960 with an increase in constant currency of \$828,074. The services revenue increase on a constant currency basis was due to an increase in services revenue associated with new implementations and change 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.

Services – related party

Services income from related party for the six months ended December 31, 2018 was \$568,123 compared to \$3,090,385 for the six months ended December 31, 2017 reflecting a decrease of \$2,522,262 with a change in constant currency of \$2,459,451. The decrease in related party service revenue is due to a decrease in revenue from our joint venture with linsurer of approximately \$1,861,227, approximately \$246,371 in service revenue related to services performed for WRLD3D and approximately \$414,664 in service revenue related to services performed for Investec.

Gross Profit

The gross profit was \$17,096,629, for the six months ended December 31, 2018 as compared with \$11,500,162 for the six months ended December 31, 2017. This is an increase of \$5,596,467 with a change in constant currency of \$7,626,353. The gross profit percentage for the six months ended December 31, 2018 increased to 51.2% from 42.2% for the six months ended December 31, 2017. The cost of sales was \$16,302,543 for the six months ended December 31, 2018 compared to \$15,765,049 for the six months ended December 31, 2017 for an increase of \$537,494 and on a constant currency basis an increase of \$3,372,281. As a percentage of sales, cost of sales decreased from 57.8% for the six months ended December 31, 2017 to 48.81% for the six months ended December 31, 2018.

Salaries and consultant fees decreased by \$1,308,636 from \$10,826,252 for the six months ended December 31, 2017 to \$9,517,616 for the six months ended December 31, 2018 and on a constant currency basis decreased \$241,302. The decrease in salaries and consultant fees is due to the right sizing of technical employees at key locations including Pakistan, Thailand, China, UK and North America. As a percentage of sales, salaries and consultant expense decreased from 39.7% for the six months ended December 31, 2017 to 28.5% for the six months ended December 31, 2018.

Depreciation and amortization expense decreased to \$1,817,652 compared to \$2,341,216 for the six months ended December 31, 2017 or a decrease of \$523,564 and on a constant currency basis a decrease of \$130,768. Depreciation and amortization expense decreased as some products became fully amortized.

Operating Expenses

Operating expenses were \$13,307,226 for the six months ended December 31, 2018 compared to \$12,301,334, for the six months ended December 31, 2017 for an increase of 8.2% or \$1,005,892 and on a constant currency basis an increase of 21.5% or \$2,644,718. As a percentage of sales, it decreased from 45.1% to 39.8%. The increase in operating expenses was primarily due to increases in selling and marketing expenses, salaries and wages and professional services.

Selling and marketing expenses increased by \$106,193 or 2.9% and on a constant currency basis an increase of \$596,606 or 16.4%. The increase in selling and marketing expenses is due to commissions, travel expenses, and business development costs to market and sell NFS Ascent™ globally.

General and administrative expenses were \$8,408,779 for the six months ended December 31, 2018 compared to \$7,814,264 at December 31, 2017 or an increase of \$594,515 or 7.6% and on a constant currency basis an increase of \$1,567,780 or 20.1%. During the six months ended December 31, 2018, salaries increased by approximately \$844,112 or \$1,295,223 on a constant currency basis due to annual raises, share grants and professional services of approximately \$45,424 or \$65,537 on constant currency bases, offset by a decrease in other general and administrative expenses of approximately \$295,021 or increase of \$207,020 on a constant currency basis.

Income (loss) from Operations

Income from operations was \$3,789,403 for the six months ended December 31, 2018 compared to a loss from operations of \$801,172 for the six months ended December 31, 2017. This represents an increase of \$4,590,575 with an increase of \$4,981,635 on a constant currency basis for the six months ended December 31, 2018 compared with the six months ended December 31, 2017. As a percentage of sales, income from operations was 11.4% for the six months ended December 31, 2018 compared to a net loss from operations of 2.9% for the six months ended December 31, 2017.

Other Income and Expense

Other income was \$2,324,502 for the six months ended December 31, 2018 compared with \$2,507,707 for the six months ended December 31, 2017. This represents a decrease of \$183,205 with an increase of \$547,413 on a constant currency basis. The change on a constant currency basis is primarily due to an increase in the foreign currency

exchange transactions of \$469,768.

Non-controlling Interest

For the six months ended December 31, 2018 and 2017, the net income attributable to non-controlling interest was \$1,793,901 and \$1,215,814, respectively. The increase in non-controlling interest is primarily due to the increase in net income of NetSol PK offset by a decrease in net income of NetSol Innovation.

Net Income attributable to NetSol

Net income was \$3,818,218 for the six months ended December 31, 2018 compared to \$264,923 for the six months ended December 31, 2017. This is an increase of \$3,553,295 with an increase of \$4,157,423 on a constant currency basis, compared to the prior year. For the six months ended December 31, 2018, net income per share was \$0.33 for basic and diluted shares compared \$0.02 for basic and diluted shares for the six months ended December 31, 2017.

Non-GAAP Financial Measures

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

We define the non-GAAP measures as follows:

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

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

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

We use non-GAAP measures internally to evaluate the business and believe that presenting non-GAAP measures provides useful information to investors regarding the underlying business trends and performance of our ongoing operations as well as useful metrics for monitoring our performance and evaluating it against industry peers. The non-GAAP financial measures presented should be used in addition to, and in conjunction with, results presented in accordance with GAAP, and should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review our consolidated financial statements in their entirety and not to rely on any single financial measure in evaluating the Company.

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

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

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

results to the operating results of our peers.

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

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Our reconciliation of the non-GAAP financial measures of adjusted EBITDA and non-GAAP earnings per basic and diluted share to the most comparable GAAP measures for the three and six months ended December 31, 2018 and 2017 are as follows:

| | Three Months Ended December 31, 2018 | Three Months Ended December 31, 2017 | Six Months Ended December 31, 2018 | Six Months Ended December 31, 2017 |
|-------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|---------------------------------------------|---------------------------------------------|
| Net Income (loss) before preferred dividend, per GAAP | \$2,855,629 | \$634,421 | \$3,818,218 | \$264,923 |
| Non-controlling interest | 1,475,355 | 1,027,581 | 1,793,901 | 1,215,814 |
| Income taxes | 264,872 | 200,927 | 501,786 | 225,798 |
| Depreciation and amortization | 1,073,827 | 1,390,888 | 2,223,663 | 2,809,874 |
| Interest expense | 63,804 | 109,675 | 163,238 | 227,746 |
| Interest (income) | (230,421) | (115,570) | (479,385) | (252,481) |
| EBITDA | \$5,503,066 | \$3,247,922 | \$8,021,421 | \$4,491,674 |
| Add back: | | | | |
| Non-cash stock-based compensation | 437,695 | 405,721 | 869,743 | 833,530 |
| Adjusted EBITDA, gross | \$5,940,761 | \$3,653,643 | \$8,891,164 | \$5,325,204 |
| Less non-controlling interest (a) | (1,887,861) | (1,562,303) | (2,640,530) | (2,264,167) |
| Adjusted EBITDA, net | \$4,052,900 | \$2,091,340 | \$6,250,634 | \$3,061,037 |
| Weighted Average number of shares outstanding | | | | |
| Basic | 11,586,507 | 11,159,075 | 11,542,877 | 11,115,346 |
| Diluted | 11,592,193 | 11,171,543 | 11,548,563 | 11,127,814 |
| Basic adjusted EBITDA | \$0.35 | \$0.19 | \$0.54 | \$0.28 |
| Diluted adjusted EBITDA | \$0.35 | \$0.19 | \$0.54 | \$0.28 |

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

| | | | | |
|-----------------------------------------------------|-------------|-------------|-------------|-------------|
| Net Income attributable to non-controlling interest | \$1,475,355 | \$1,027,581 | \$1,793,901 | \$1,215,814 |
| Income Taxes | 70,821 | 29,945 | 141,364 | 40,423 |
| Depreciation and amortization | 338,278 | 465,138 | 704,132 | 932,320 |
| Interest expense | 20,219 | 34,463 | 52,909 | 73,535 |
| Interest (income) | (54,247) | (36,918) | (121,115) | (82,075) |
| EBITDA | \$1,850,426 | \$1,520,209 | \$2,571,191 | \$2,180,017 |
| Add back: | | | | |
| Non-cash stock-based compensation | 37,435 | 42,094 | 69,339 | 84,150 |
| Adjusted EBITDA of non-controlling interest | \$1,887,861 | \$1,562,303 | \$2,640,530 | \$2,264,167 |

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was \$20,320,804 at December 31, 2018, compared to \$22,088,853 at June 30, 2018.

Net cash provided by operating activities was \$3,154,647 for the six months ended December 31, 2018 compared to \$2,054,989 used in operating activities for the six months ended December 31, 2017. At December 31, 2018, we had current assets of \$52,261,788 and current liabilities of \$19,890,036. We had accounts receivable of \$10,796,586 at December 31, 2018 compared to \$16,149,733 at June 30, 2018. We had revenues in excess of billings of \$13,894,977 at December 31, 2018 compared to \$15,492,447 at June 30, 2018 of which \$Nil and \$1,206,669 is shown as long term as of December 31, 2018 and June 30, 2018, respectively. The long-term portion was discounted by \$238,576 at June 30, 2018, using the discounted cash flow method with interest rates ranging from 3.87% to 4.43% which was NetSol PK's weighted average borrowing rate.

During the six months ended December 31, 2018, our revenues in excess of billings were reclassified to accounts receivable pursuant to billing requirements detailed in each contract. The combined totals for accounts receivable and revenues in excess of billings decreased by \$6,950,617 from \$31,642,180 at June 30, 2018 to \$24,691,563 at December 31, 2018. The decrease is primarily due to the adjustments made upon adopting the new revenue standard ASC 606. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to \$7,468,984 and \$7,627,426, respectively at December 31, 2018. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to \$7,873,809 and \$8,595,919, respectively at June 30, 2018.

The average days sales outstanding for the six months ended December 31, 2018 and 2017 were 155 and 260 days, respectively, for each period. The days sales outstanding have been calculated by taking into consideration the average combined balances of accounts receivable and revenues in excess of billings.

Net cash used in investing activities was \$1,954,592 for the six months ended December 31, 2018, compared to \$899,882 for the six months ended December 31, 2017. We had purchases of property and equipment of \$1,441,237 compared to \$543,123 for the six months ended December 31, 2017. For the six months ended December 31, 2018 and 2017, we invested \$1,033,000 and \$500,000, respectively, in a short-term convertible note receivable from WRLD3D.

Net cash used in financing activities was \$405,602 for the six months ended December 31, 2018, compared to \$449,164 for the six months ended December 31, 2017. The six months ended December 31, 2018 included the cash inflow of \$65,000 from the exercising of stock options compared to \$215,311 for the same period last year. During the six months ended December 31, 2018, we purchased zero shares of our common stock from the open market compared to 139,275 shares of common stock for \$601,020 for the same period last year. The six months ended December 31, 2018 included the cash inflow of \$382,240 from bank proceeds compared to \$708,457 for the same period last year. During the six months ended December 31, 2018, we had net payments for bank loans and capital leases of \$289,027 compared to \$361,814 for the six months ended December 31, 2017. We are operating in various geographical regions of the world through our 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 15 of the financial statements. We are in compliance with the covenants of the financial arrangements and there is no default, which may lead to early payment of these obligations. We anticipate paying back all these obligations on their respective due dates from its own sources.

We typically fund the cash requirements for our operations in the U.S. through our license, services, and maintenance agreements, intercompany charges for corporate services, and through the exercise of options and warrants. As of December 31, 2018, we had approximately \$20.3 million of cash, cash equivalents and marketable securities of which approximately \$19.0 million is held by our foreign subsidiaries. As of June 30, 2018, we had approximately \$22.1 million of cash, cash equivalents and marketable securities of which approximately \$20.9 million is held by our foreign subsidiaries.

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

As a growing company, we have on-going capital expenditure needs based on our short term and long-term business plans. Although our requirements for capital expenses vary from time to time, for the next 12 months, we anticipate needing \$2.5 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 UK based subsidiary, NTE, has an approved overdraft facility of £300,000 (\$379,747) 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. The Pakistani subsidiary, NetSol PK has an approved facility for export refinance from Askari Bank Limited amounting to Rupees 500 million (\$3,586,801) and a running finance facility of Rupees 75 million (\$538,020) which requires NetSol PK to maintain a long-term debt equity ratio of 60:40 and the current ratio of 1:1. NetSol PK also has an approved export refinance facility of Rs. 350 million (\$2,510,760) and a running finance facility of Rs. 150 million (\$1,076,040) from Samba Bank Limited. During the tenure of loan, these two facilities require NetSol PK to maintain at a minimum a current ratio of 1:1, an interest coverage ratio of 4 times, a leverage ratio of 2 times, and a debt service coverage ratio of 4 times.

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

CRITICAL ACCOUNTING POLICIES

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

REVENUE RECOGNITION

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;

Allocation of the transaction price to the performance obligations in the contract; and Recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company records the amount of revenue and related costs by considering whether the entity is a principal (gross presentation) or an agent (net presentation) by evaluating the nature of its promise to the customer. Revenue is presented net of sales, value-added and other taxes collected from customers and remitted to government authorities.

The Company has two primary revenue streams: core revenue and non-core revenue.

Core Revenue

The Company generates its core revenue from the following sources: (1) software licenses, (2) services, which include implementation and consulting services, and (3) maintenance, which includes post contract support, of its enterprise software solutions for the lease and finance industry. The Company offers its software using the same underlying technology via two models: a traditional on-premises licensing model and a subscription model. The on-premises model involves the sale or license of software on a perpetual basis to customers who take possession of the software and install and maintain the software on their own hardware. Under the subscription delivery model, the Company provides access to its software on a hosted basis as a service and customers generally do not have the contractual right to take possession of the software.

Non-Core Revenue

The Company generates its non-core revenue by providing business process outsourcing (“BPO”), other IT services and internet services.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under Topic 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied by transferring the promised good or service to the customer. The Company identifies and tracks the performance obligations at contract inception so that the Company can monitor and account for the performance obligations over the life of the contract.

The Company's contracts which contain multiple performance obligations generally consist of the initial purchase of subscription or licenses and a professional services engagement. License purchases generally have multiple performance obligations as customers purchase maintenance and services in addition to the licenses. The Company's single performance obligation arrangements are typically maintenance renewals, subscription renewals and services engagements.

For contracts with multiple performance obligations where the contracted price differs from the standalone selling price ("SSP") for any distinct good or service, the Company may be required to allocate the contract's transaction price to each performance obligation using its best estimate for the SSP.

Subscription

Subscription revenue is recognized ratably over the initial subscription period committed to by the customer commencing when the product is made available to the customer. The initial subscription period is typically 12 to 60 months. The Company generally invoices its customers in advance in quarterly or annual installments and typical payment terms provide that customers make payment within 30 days of invoice.

Software Licenses

Transfer of control for software is considered to have occurred upon delivery of the product to the customer. The Company's typical payment terms tend to vary by region, but its standard payment terms are within 30 days of invoice.

Maintenance

Revenue from support services and product updates, referred to as maintenance revenue, is recognized ratably over the term of the maintenance period, which in most instances is one year. Software license updates provide customers with rights to unspecified software product updates, maintenance releases and patches released during the term of the support period on a when-and-if available basis. The Company's customers purchase both product support and license updates when they acquire new software licenses. In addition, a majority of customers renew their support services contracts annually and typical payment terms provide that customers make payment within 30 days of invoice.

Professional Services

Revenue from professional services is typically comprised of implementation, development, data migration, training or other consulting services. Consulting services are generally sold on a time-and-materials or fixed fee basis and can include services ranging from software installation to data conversion and building non-complex interfaces to allow the software to operate in integrated environments. The Company recognizes revenue for time-and-materials arrangements as the services are performed. In fixed fee arrangements, revenue is recognized as services are performed as measured by costs incurred to date, compared to total estimated costs to complete the services project. Management applies judgment when estimating project status and the costs necessary to complete the services projects. A number of internal and external factors can affect these estimates, including labor rates, utilization and efficiency variances and specification and testing requirement changes. Services are generally invoiced upon milestones in the contract or upon consumption of the hourly resources and payments are typically due 30 days after invoice.

BPO and Internet Services

Revenue from BPO services is recognized based on the stage of completion which is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Internet services are invoiced either monthly, quarterly or half yearly in advance to the customers and revenue is recognized ratably overtime on a monthly basis.

Significant Judgments

More judgments and estimates are required under Topic 606 than were required under Topic 605. Due to the complexity of certain contracts, the actual revenue recognition treatment required under Topic 606 for the Company's arrangements may be dependent on contract-specific terms and may vary in some instances.

Judgment is required to determine the SSP for each distinct performance obligation. The Company rarely licenses or sells products on a stand-alone basis, so the Company is required to estimate the range of SSPs for each performance obligation. In instances where SSP is not directly observable because the Company does not sell the license, product or service separately, the Company determines the SSP using information that may include market conditions and other observable inputs. In making these judgments, the Company analyzes various factors, including its pricing methodology and consistency, size of the arrangement, length of term, customer demographics and overall market and economic conditions. Based on these results, the estimated SSP is set for each distinct product or service delivered to customers.

The most significant inputs involved in the Company's revenue recognition policies are: The (1) stand-alone selling prices of the Company's software license, and the (2) the method of recognizing revenue for installation/customization, and other services.

The stand-alone selling price of the licenses was measured primarily through an analysis of pricing that management evaluated when quoting prices to customers. Although the Company has no history of selling its software separately from maintenance and other services, the Company does have historical experience with amending contracts with customers to provide additional modules of its software or providing those modules at an optional price. This information guides the Company in assessing the stand-alone selling price of the Company's software, since the Company can observe instances where a customer had a particular component of the Company's software that was essentially priced separate from other goods and services that the Company delivered to that customer.

The Company recognized revenue from implementation and customization services using the percentage of estimated "man-days" that the work requires. The Company believes the level of effort to complete the services is best measured by the amount of time (measured as an employee working for one day on implementation/customization work) that is required to complete the implementation or customization work. The Company reviews its estimate of man-days required to complete implementation and customization services each reporting period.

Revenue is recognized over time for the Company's subscription, maintenance and fixed fee professional services that are separate performance obligations. For the Company's professional services, revenue is recognized over time,

generally using costs incurred or hours expended to measure progress. Judgment is required in estimating project status and the costs necessary to complete projects. A number of internal and external factors can affect these estimates, including labor rates, utilization, specification variances and testing requirement changes.

If a group of agreements are entered at or near the same time and so closely related that they are, in effect, part of a single arrangement, such agreements are deemed to be combined as one arrangement for revenue recognition purposes. The Company exercises significant judgment to evaluate the relevant facts and circumstances in determining whether agreements should be accounted for separately or as a single arrangement. The Company's judgments about whether a group of contracts comprise a single arrangement can affect the allocation of consideration to the distinct performance obligations, which could have an effect on results of operations for the periods involved.

If a contract includes variable consideration, the Company exercises judgment in estimating the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. When estimating variable consideration, the Company will consider all relevant facts and circumstances. Variable consideration will be estimated and included in the contract price only when it is probable that a significant reversal in the amount of revenue recognized will not occur.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets (revenues in excess of billings), or contract liabilities (deferred revenue) on the Company's Consolidated Balance Sheets. The Company records revenues in excess of billings when the Company has transferred goods or services but does not yet have the right to consideration. The Company records deferred revenue when the Company has received or has the right to receive consideration but has not yet transferred goods or services to the customer.

Deferred Revenue

The Company typically invoices its customers for subscription and support fees in advance on a quarterly or annual basis, with payment due at the start of the subscription or support term. Unpaid invoice amounts for non-cancelable license and services starting in future periods are included in accounts receivable and deferred revenue.

Practical Expedients and Exemptions

There are several practical expedients and exemptions allowed under Topic 606 that impact timing of revenue recognition and the Company's disclosures. Below is a list of practical expedients the Company applied in the adoption and application of Topic 606:

Application

The Company does not evaluate a contract for a significant financing component if payment is expected within one year or less from the transfer of the promised items to the customer.

The Company generally expenses sales commissions and sales agent fees when incurred when the amortization period would have been one year or less or the commissions are based on cashed received. These costs are recorded within sales and marketing expense in the Consolidated Statement of Operations.

The Company does not disclose the value of unsatisfied performance obligations for contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed (applies to time-and-material engagements).

Modified Retrospective Transition Adjustments

For contract modifications, the Company reflected the aggregate effect of all modifications that occurred prior to the adoption date when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to satisfied and unsatisfied performance obligations for the modified contract at transition.

Costs to Obtain a Contract

The Company does not have a material amount of costs to obtain a contract capitalized at any balance sheet date. In general, we incur few direct incremental costs of obtaining new customer contracts. We rarely incur incremental costs to review or otherwise enter into contractual arrangements with customers. In addition, our sales personnel receive fees that we refer to as commissions, but that are based on more than simply signing up new customers. Our sales personnel are required to perform additional duties beyond new customer contract inception dates, including fulfillment duties and collections efforts.

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 PRONOUNCEMENTS

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

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

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

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

Under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, we have performed an assessment of the effectiveness of our internal controls over financial reporting as of December 31, 2018. This assessment was based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of our assessment, the Company has determined that as of December 31, 2018, 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 December 31, 2018, 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

None

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)

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SIGNATURES

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

NETSOL TECHNOLOGIES, INC.

Date: February 13, 2019 /s/ *Najeeb U. Ghauri*
NAJEEB U. GHAURI
Chief Executive Officer

Date: February 13, 2019 /s/ *Roger K. Almond*
ROGER K. ALMOND
Chief Financial Officer
Principal Accounting Officer

