UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2017

[ ] For the transition period from __________ to __________

Commission file number: 0-22773

NETSOL TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

NEVADA (State or other Jurisdiction of Incorporation or Organization)	95-4627685 (I.R.S. Employer NO.)

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 [X] No [ ]

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

Large Accelerated Filer [ ]	Accelerated Filer [ ]
Non-Accelerated Filer [ ]	Small Reporting Company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes [ ] No [X]

The issuer had 11,395,401 shares of its $.01 par value Common Stock and no Preferred Stock issued and outstanding as of February 10, 2018.

NETSOL TECHNOLOGIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	As of December 31, 2017	As of June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,004,650	$ 14,172,954
Accounts receivable, net of allowance of $347,413 and $571,511	19,106,677	6,583,199
Accounts receivable, net - related party	2,582,403	1,644,942
Revenues in excess of billings	16,094,026	19,126,389
Revenues in excess of billings - related party	107,562	80,705
Convertible note receivable - related party	750,000	200,000
Other current assets	2,819,183	2,463,886
Total current assets	51,464,501	44,272,075
Restricted cash	90,000	90,000
Revenues in excess of billings, net - long term	6,668,854	5,173,538
Property and equipment, net	18,443,494	20,370,703
Other assets	3,543,315	3,211,295
Intangible assets, net	14,810,605	17,043,151
Goodwill	9,516,568	9,516,568
Total assets	$ 104,537,337	$ 99,677,330
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 7,560,298	$ 6,880,194
Current portion of loans and obligations under capitalized leases	10,133,100	10,222,795
Unearned revenues	10,082,346	3,925,702
Common stock to be issued	88,324	88,324
Total current liabilities	27,864,068	21,117,015
Loans and obligations under capitalized leases; less current maturities	250,883	366,762
Total liabilities	28,114,951	21,483,777
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 500,000 shares authorized;	-	-
Common stock, $.01 par value; 14,500,000 shares authorized; 11,395,401 shares issued and 11,221,347 outstanding as of December 31, 2017 and 11,225,385 shares issued and 11,190,606 outstanding as of June 30, 2017	113,954	112,254
Additional paid-in-capital	125,354,035	124,409,998
Treasury stock (At cost, 174,054 shares and 34,779 shares as of December 31, 2017 and June 30, 2017, respectively)	(1,055,330)	(454,310)
Accumulated deficit	(42,036,467)	(42,301,390)
Stock subscription receivable	(221,000)	(297,511)
Other comprehensive loss	(20,276,030)	(18,074,570)
Total NetSol stockholders' equity	61,879,162	63,394,471
Non-controlling interest	14,543,224	14,799,082
Total stockholders' equity	76,422,386	78,193,553
Total liabilities and stockholders' equity	$ 104,537,337	$ 99,677,330

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,	
	2017	2016	2017	2016
		Restated		Restated
Net Revenues:				
License fees	$ 235,932	$ 3,769,557	$ 561,998	$ 9,223,352
Maintenance fees	3,568,448	3,588,899	7,042,173	7,112,696
Services	9,087,191	6,619,158	16,104,928	12,175,293
License fees - related party	217,105	-	261,513	246,957
Maintenance fees - related party	101,251	51,345	204,214	181,976
Services - related party	1,236,508	1,829,827	3,090,385	3,994,981
Total net revenues	14,446,435	15,858,786	27,265,211	32,935,255
Cost of revenues:				
Salaries and consultants	5,362,092	5,979,804	10,826,252	11,873,153
Travel	287,901	836,240	801,013	1,548,135
Depreciation and amortization	1,168,103	1,318,764	2,341,216	2,649,636
Other	939,986	1,065,727	1,796,568	2,038,065
Total cost of revenues	7,758,082	9,200,535	15,765,049	18,108,989
Gross profit	6,688,353	6,658,251	11,500,162	14,826,266
Operating expenses:				
Selling and marketing	1,932,140	2,713,478	3,643,436	5,057,516
Depreciation and amortization	222,785	271,485	468,658	540,582
Provision for bad debts	-	1,026	-	1,026
General and administrative	4,026,706	3,932,387	7,814,264	8,551,583
Research and development cost	189,891	91,607	374,976	184,539
Total operating expenses	6,371,522	7,009,983	12,301,334	14,335,246
Income from operations	316,831	(351,732)	(801,172)	491,020
Other income and (expenses)				
Loss on sale of assets	(8,939)	(32,339)	(16,069)	(34,742)
Interest expense	(109,675)	(62,127)	(227,746)	(116,602)
Interest income	115,570	23,416	252,481	53,856
Gain (loss) on foreign currency exchange transactions	1,737,967	(621,887)	2,754,329	(1,036,783)
Share of net loss from equity investment	(203,336)	-	(270,898)	-
Other income	14,511	6,823	15,610	28,383
Total other income (expenses)	1,546,098	(686,114)	2,507,707	(1,105,888)
Net income (loss) before income taxes	1,862,929	(1,037,846)	1,706,535	(614,868)
Income tax provision	(200,927)	(338,884)	(225,798)	(378,759)
Net income (loss)	1,662,002	(1,376,730)	1,480,737	(993,627)
Non-controlling interest	(1,027,581)	(791,664)	(1,215,814)	(1,560,878)
Net income (loss) attributable to NetSol	$ 634,421	$ (2,168,394)	$ 264,923	$ (2,554,505)
Net income (loss) per share:				
Net income (loss) per common share				
Basic	$ 0.06	$ (0.20)	$ 0.02	$ (0.24)
Diluted	$ 0.06	$ (0.20)	$ 0.02	$ (0.24)
Weighted average number of shares outstanding				
Basic	11,159,075	10,877,446	11,115,346	10,783,685
Diluted	11,171,543	10,877,446	11,127,814	10,783,685

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

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2017	2016 Restated	2017	2016 Restated
Net income (loss)	$ 634,421	$ (2,168,394)	$ 264,923	$ (2,554,505)
Other comprehensive income (loss):				
Translation adjustment	(2,453,890)	(944,837)	(3,279,634)	149,237
Translation adjustment attributable to non-controlling interest	841,009	276,575	1,078,174	(47,138)
Net translation adjustment	(1,612,881)	(668,262)	(2,201,460)	102,099
Comprehensive income (loss) attributable to NetSol	$ (978,460)	$ (2,836,656)	$ (1,936,537)	$ (2,452,406)

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, 2017	2016 Restated
Cash flows from operating activities:		
Net income (loss)	$ 1,480,737	$ (993,627)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,809,874	3,190,218
Provision for bad debts	-	1,026
Share of net loss from investment under equity method	270,898	-
Loss on sale of assets	16,069	34,742
Stock based compensation	833,530	1,525,775
Fair market value of warrants and stock options granted	-	21,804
Changes in operating assets and liabilities:		
Accounts receivable	(13,231,059)	3,678,110
Accounts receivable - related party	(1,637,829)	829,285
Revenues in excess of billing	602,676	(7,592,495)
Revenues in excess of billing - related party	(32,308)	285,791
Other current assets	(524,547)	585,147
Accounts payable and accrued expenses	887,824	334,241
Unearned revenue	6,469,146	(1,830,619)
Net cash provided by (used in) operating activities	(2,054,989)	69,398
Cash flows from investing activities:		
Purchases of property and equipment	(543,123)	(1,074,316)
Sales of property and equipment	193,241	181,087
Convertible note receivable - related party	(500,000)	-
Investment in WRLD3D	(50,000)	(705,555)
Net cash used in investing activities	(899,882)	(1,598,784)
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	215,311	429,452
Proceeds from exercise of subsidiary options	7,755	18,089
Purchase of treasury stock	(601,020)	(38,885)
Dividend paid by subsidiary to non-controlling interest	(417,853)	(968,657)
Proceeds from bank loans	708,457	-
Payments on capital lease obligations and loans - net	(361,814)	(69,998)
Net cash used in financing activities	(449,164)	(629,999)
Effect of exchange rate changes	(764,269)	107,241
Net decrease in cash and cash equivalents	(4,168,304)	(2,052,144)
Cash and cash equivalents, beginning of the period	14,172,954	11,557,527
Cash and cash equivalents, end of period	$ 10,004,650	$ 9,505,383

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

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

	For the Six Months Ended December 31,	
	2017	2016
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$ 189,769	$ 123,682
Taxes	$ 226,098	$ 77,414
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Provided services for investment in WRLD3D	$ 553,678	$ 549,621
Assets acquired under capital lease	$ 113,220	$ -

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

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The Company designs, develops, markets, and exports proprietary software products to customers in the automobile financing and leasing, banking, 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, 2017. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

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

Wholly owned Subsidiaries

NetSol Technologies Americas, Inc. ("NTA")
NetSol Connect (Private), Ltd. ("Connect")
NetSol Technologies Australia Pty Ltd. ("Australia")
NetSol Technologies Europe Limited ("NTE")
NTPK (Thailand) Co. Limited ("NTPK Thailand")
NetSol Technologies (Beijing) Co. Ltd. ("NetSol Beijing")
NetSol Technologies (GmbH) ("NTG")

Majority-owned Subsidiaries

NetSol Technologies, Ltd. ("NetSol PK")
NetSol Innovation (Private) Limited ("NetSol Innovation")
NetSol Technologies Thailand Limited ("NetSol Thai")
Virtual Lease Services Holdings Limited ("VLSH")
Virtual Lease Services Limited ("VLS")
Virtual Lease Services (Ireland) Limited ("VLSIL")

For comparative purposes, prior year's condensed consolidated financial statements have been reclassified to conform to report classifications of the current period. Below is the table of reclassified amounts:

	For the Three Months Ended December 31, 2016		For the Six Months Ended December 31, 2016	
	Originally reported	Reclassified	Originally reported	Reclassified
Net Revenues:				
Services	$ 6,984,084	$ 6,619,158	$ 12,790,801	$ 12,175,293
Services - related party	1,464,901	1,829,827	3,379,473	3,994,981
	$ 8,448,985	$ 8,448,985	$ 16,170,274	$ 16,170,274
Operating expenses:				
Provision for bad debts	$ -	$ 1,026	$ -	$ 1,026
General and administrative	3,933,413	3,932,387	8,552,609	8,551,583
	$ 3,933,413	$ 3,933,413	$ 8,552,609	$ 8,552,609

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.

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, 2017, and June 30, 2017, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately $8,463,863 and $11,564,343, 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, restricted cash, 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 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's financial assets that are measured at fair value on a recurring basis as of December 31, 2017, are as follows:

	Level 1	Level 2	Level 3	Total Assets
Revenue in excess of billing - long term	$ -	$ -	$ 6,668,854	$ 6,668,854
Total	$ -	$ -	$ 6,668,854	$ 6,668,854

The Company's financial assets that were measured at fair value on a recurring basis as of June 30, 2017, were as follows:

	Level 1	Level 2	Level 3	Total Assets
Revenue in excess of billing - long term	$ -	$ -	$ 5,173,538	$ 5,173,538
Total	$ -	$ -	$ 5,173,538	$ 5,173,538

The reconciliation from June 30, 2017 to December 31, 2017 is as follows:

	Revenue in excess of billing - long term	Fair value discount	Total
Balance at June 30, 2017	$ 5,483,869	$ (310,331)	$ 5,173,538
Additions	1,469,379	$ (85,057)	1,384,322
Amortization during the period	-	110,994	110,994
Balance at December 31, 2017	$ 6,953,248	$ (284,394)	$ 6,668,854

The Company applied the discounted cash flow method to calculate the fair value and used NetSol PK's weighted average borrowing rate, ranging from 3.93% to 4.43%.

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 warrant and option derivatives are valued using the Black-Scholes model.

New Accounting Pronouncements

Recent Accounting Standards Adopted by the Company:

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

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The guidance simplifies accounting for share-based payments, most notably by requiring all excess tax benefits and tax deficiencies to be recorded as income tax benefits or expense in the income statement and by allowing entities to recognize forfeitures of awards when they occur. This new guidance is effective for annual reporting periods beginning after December 15, 2016 and may be adopted prospectively or retroactively. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position or disclosures.

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

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

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

In February 2016, the FASB issued ASU No. 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 the impact of the adoption of this standard on its consolidated financial statements.

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 is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

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

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

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

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 Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In July 2017, the FASB issued ASU No. 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.

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

NOTE 3 – EARNINGS PER SHARE

Basic earnings per share are computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, warrants, and stock awards.

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

	For the three months ended December 31, 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	-	-	12,468	-
Diluted income per share	$ 634,421	11,171,543	$ 0.06	$ 264,923	11,127,814	$ 0.02

	For the three months ended December 31, 2016			For the six months ended December 31, 2016		
	Net Loss Restated	**Shares**	**Per Share Restated**	**Net Loss Restated**	**Shares**	**Per Share Restated**
Basic loss per share:						
Net loss available to common shareholders	$ (2,168,394)	10,877,446	$ (0.20)	$ (2,554,505)	10,783,685	$ (0.24)
Effect of dilutive securities						
Stock options	-	-	-	-	-	-
Diluted loss per share	$ (2,168,394)	10,877,446	$ (0.20)	$ (2,554,505)	10,783,685	$ (0.24)

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2017	2016	2017	2016
Stock Options	-	480,133	-	480,133
Warrants	-	11,075	-	11,075
Share Grants	285,956	629,258	285,956	629,258
	285,956	1,120,466	285,956	1,120,466

NOTE 4 – OTHER COMPREHENSIVE INCOME AND FOREIGN CURRENCY:

The accounts of NTE, VLSH and VLS use the British Pound; VLSIL and NTG use the Euro; NetSol PK, Connect, and NetSol Innovation use the Pakistan Rupee; NTPK Thailand and NetSol Thai use the Thai Baht; Australia uses the Australian dollar; and NetSol Beijing uses the Chinese Yuan as the functional currencies. NetSol Technologies, Inc., and its subsidiary, NTA, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Accumulated translation losses classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet were $20,276,030 and $18,074,570 as of December 31, 2017 and June 30, 2017, 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. During the three and six months ended December 31, 2016, comprehensive income (loss) in the consolidated statements of operations included a translation loss of $668,262 and translation income of $102,099, respectively.

NOTE 5 – 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, 2017, NetSol Innovation provided services of $796,757 and $1,928,513, respectively. During the three and six months ended December 31, 2016, NetSol-Innovation provided services of $1,401,144 and $2,956,619, respectively. Accounts receivable at December 31, 2017 and June 30, 2017 were $2,429,771 and $1,462,078, 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, 2017, NTE and VLS provided license, maintenance and services of $442,699 and $1,043,891, respectively. During the three and six months ended December 31, 2016, NTE and VLS provided license, maintenance and services of $115,102 and $851,787, respectively. Accounts receivable at December 31, 2017 and June 30, 2017 were $113,310 and $133,218, respectively.

WRLD3D

On May 31, 2017, Faizaan Ghauri, son of CEO Najeeb Ghauri, and an employee of the Company was appointed CEO of WRLD3D, Inc. ("WRLD3D") a non-public company. On March 2, 2016, the Company purchased a 4.9% interest in WRLD3D for $1,111,111 and the Company's subsidiary NetSol PK 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. See Note 7 and Note 11.

G-FORCE

Najeeb Ghauri, CEO and Chairman of the Board, and Naeem Ghauri, Director, have a financial interest in G-Force, LLC, which purchased a 4.9% investment in WRLD3D, Inc. for $1,111,111. See Note 11 "Other Long-Term Assets"

NOTE 6 – MAJOR CUSTOMERS

The Company is a strategic business partner for Daimler Financial Services (which consists of a group of many companies in different countries), which accounts for approximately 35.90% and 41.54% of revenue for the six months ended December 31, 2017 and 2016, respectively. The revenue from this customer is shown in the Asia – Pacific segment. Accounts receivable at December 31, 2017 and June 30, 2017, were $12,761,829 and $1,620,717, respectively. Revenue in excess of billing at December 31, 2017 was $16,674,348, which included $6,668,854 shown as long term. Revenue in excess of billing at June 30, 2017 was $18,579,540, which included $5,173,538 shown as long term.

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 $85,054,591) 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 $7,008,019) for years 1-5 and €8,350,000 (approximately $10,002,899) 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 $9,277,108) to be earned over the remaining life of the contract. The amended agreement provides for €7,000,000 (approximately $8,433,735) to be paid in the current fiscal year with €100,000 (approximately $120,482) to be paid each year over the remaining seven years.

NOTE 7 – CONVERTIBLE NOTE RECEIVABLE – RELATED PARTY

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 December 31, 2017, the Company had disbursed the full amount. 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 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 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.

NOTE 8 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of December 31, 2017		As of June 30, 2017	
Prepaid Expenses	$	660,417	$	597,687
Advance Income Tax		979,296		1,052,935
Employee Advances		114,147		128,100
Security Deposits		84,934		103,255
Other Receivables		648,237		252,590
Other Assets		332,152		329,319
Total	$	2,819,183	$	2,463,886

NOTE 9 – REVENUE IN EXCESS OF BILLINGS – LONG TERM

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

	As of December 31, 2017		As of June 30, 2017	
Revenue in excess of billing - long term	$	6,953,248	$	5,483,869
Present value discount		(284,394)		(310,331)
Net Balance	$	6,668,854	$	5,173,538

Pursuant to revenue recognition for contract accounting, the Company has recorded revenue 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 is recorded in interest income. The Company used the discounted cash flow method with interest rates ranging from 3.93% to 4.43%.

NOTE 10 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	As of December 31, 2017	As of June 30, 2017
Office Furniture and Equipment	$ 3,908,883	$ 3,755,710
Computer Equipment	25,788,684	26,693,730
Assets Under Capital Leases	1,522,708	1,965,650
Building	8,794,381	9,243,866
Land	2,299,047	2,428,626
Autos	1,287,043	1,270,339
Improvements	534,900	592,652
Subtotal	44,135,646	45,950,573
Accumulated Depreciation	(25,692,152)	(25,579,870)
Property and Equipment, Net	$ 18,443,494	$ 20,370,703

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. For the three and six months ended December 31, 2016, depreciation expense totaled $902,678 and $1,801,981, respectively. Of these amounts, $631,193 and $1,261,399, respectively, are reflected in cost of revenues.

Following is a summary of fixed assets held under capital leases as of December 31, 2017 and June 30, 2017:

	As of December 31, 2017	As of June 30, 2017
Computers and Other Equipment	$ 236,518	$ 309,863
Furniture and Fixtures	65,084	227,914
Vehicles	1,221,106	1,427,873
Total	1,522,708	1,965,650
Less: Accumulated Depreciation - Net	(568,087)	(711,622)
	$ 954,621	$ 1,254,028

NOTE 11 – OTHER LONG TERM ASSETS

		As of December 31, 2017	As of June 30, 2017
Investment	(1)	$ 3,389,801	$ 3,057,020
Long Term Security Deposits		153,514	154,275
Total		$ 3,543,315	$ 3,211,295

(1) Investment in WRLD3D

On March 2, 2016, 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, 2016. 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 unearned shares back to WRLD3D. As of December 31, the investment earned by NetSol PK is $2,549,587.

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

    b) 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).

The Company had originally accounted for the investment under the cost method. On May 31, 2017, the Company determined that it met the significant influence criteria since the newly appointed CEO of WRLD3D is the son of the CEO, Najeeb Ghauri, and also an employee of the Company; therefore, the Company changed the accounting treatment from the cost method to the equity method.

During the three and six months ended December 31, 2017, NetSol PK provided services valued at $315,408 and $583,708, respectively. During the three and six months ended December 31, 2016, NetSol PK provided services valued at $300,963 and $549,621, respectively. This revenue is recorded as services-related party. These services are recorded as accounts receivable until approved by WRLD3D after which the shares are released from restriction. Accounts receivable at December 31, 2017 and June 30, 2017 were $39,322 and $49,646, respectively. Revenue in excess of billing at December 31, 2017 and June 30, 2017 were $107,562 and $80,705, respectively. During the three and six months ended December 31, 2017, NetSol PK services valued at $285,378 and $553,678, respectively, were released from restriction. During the three and six months ended December 31, 2016, NetSol PK services valued at $300,963 and $549,621, respectively, were released from restriction. Under the equity method of accounting, 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.

NOTE 12 - INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of December 31, 2017	As of June 30, 2017
Product Licenses - Cost	$ 47,244,997	$ 47,244,997
Effect of Translation Adjustment	(4,850,984)	(3,134,488)
Accumulated Amortization	(27,583,408)	(27,067,358)
Net Balance	$ 14,810,605	$ 17,043,151

(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 $14,810,605 will be amortized over the next 5.5 years. Amortization expense for the three and six months ended December 31, 2017 was $683,220 and $1,373,547, respectively. Amortization expense for the three and six months ended December 31, 2016 was $687,571 and $1,388,237, respectively.

(B) Future Amortization

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

Year ended:	
December 31, 2018	$ 2,630,334
December 31, 2019	2,630,334
December 31, 2020	2,630,334
December 31, 2021	2,630,334
December 31, 2022	2,630,334
Thereafter	1,658,935
	$ 14,810,605

NOTE 13 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of December 31, 2017	As of June 30, 2017
Accounts Payable	$ 1,639,112	$ 1,466,265
Accrued Liabilities	5,086,258	4,498,958
Accrued Payroll & Taxes	488,491	520,719
Taxes Payable	167,994	174,485
Other Payable	178,443	219,767
Total	$ 7,560,298	$ 6,880,194

NOTE 14 – DEBTS

Notes payable and capital leases consisted of the following:

		As of December 31, 2017		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$ 105,023	$ 105,023	$ -
Bank Overdraft Facility	(2)	-	-	-
Loan Payable Bank - Export Refinance	(3)	4,521,613	4,521,613	-
Loan Payable Bank - Running Finance	(4)	678,217	678,217	-
Loan Payable Bank - Export Refinance II	(5)	3,165,130	3,165,130	-
Loan Payable Bank - Running Finance II	(6)	1,356,484	1,356,484	-
		9,826,467	9,826,467	-
Subsidiary Capital Leases	(7)	557,516	306,633	250,883
		$ 10,383,983	$ 10,133,100	$ 250,883

		As of June 30, 2017		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$ 87,485	$ 87,485	$ -
Bank Overdraft Facility	(2)	221,379	221,379	-
Loan Payable Bank - Export Refinance	(3)	4,776,461	4,776,461	-
Loan Payable Bank - Export Refinance II	(5)	1,910,585	1,910,585	-
Loan Payable Bank - Running Finance II	(6)	2,865,877	2,865,877	-
		9,861,787	9,861,787	-
Subsidiary Capital Leases	(7)	727,770	361,008	366,762
		$ 10,589,557	$ 10,222,795	$ 366,762

(1) The Company finances Directors' and Officers' ("D&O") liability insurance, Errors and Omissions ("E&O") liability insurance and some account payables, 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 4.8% to 7.69% as of December 31, 2017 and June 30, 2017.

(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 $405,405. The annual interest rate was 4.75% as of December 31, 2017. Total outstanding balance as of December 31, 2017 was £Nil. Interest expense for three and six months ended December 31, 2017, was $5,991 and $8,045, respectively. Interest expense for three and six months ended December 31, 2016, 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, 2017, 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 $4,521,613 at December 31, 2017 and June 30, 2017. The interest rate for the loans was 3% at December 31, 2017 and June 30, 2017. Interest expense for the three and six months ended December 31, 2017 was $35,533 and $71,431, respectively. Interest expense for the three and six months ended December 31, 2016 was $28,527 and $57,592, respectively.

(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 $678,242, at December 31, 2017. NetSol PK used Rs. 74,997,233 or $678,217, at December 31, 2017. The interest rate for the loans was 8.16% at December 31, 2017.

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, 2017, 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 $3,165,130 and Rs. 200,000,000 or $1,910,585, at December 31, 2017 and June 30, 2017, respectively. The interest rate for the loans was 3% at December 31, 2017 and June 30, 2017. Interest expense for the three and six months ended December 31, 2017 was $17,656 and $39,778, respectively. Interest expense for three and six months ended December 31, 2016, was $nil.

(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 $1,356,484 and Rs. 300,000,000 or $2,865,877, at December 31, 2017 and June 30, 2017, respectively. The interest rate for the loans was 8.13% at December 31, 2017 and June 30, 2017, respectively. Interest expense for the three and six months ended December 31, 2017 was $35,626 and $79,721, respectively. Interest expense for three and six months ended December 31, 2016, was $nil.

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, 2017, NetSol PK was in compliance with these covenants.

(6) 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 months ended December 31, 2017 and 2016.

Following is the aggregate minimum future lease payments under capital leases as of December 31, 2017:

		Amount
Minimum Lease Payments		
Due FYE 12/31/18	$	336,546
Due FYE 12/31/19		220,855
Due FYE 12/31/20		36,412
Due FYE 12/31/21		5,182
Due FYE 12/31/22		-
Total Minimum Lease Payments		598,995
Interest Expense relating to future periods		(41,479)
Present Value of minimum lease payments		557,516
Less: Current portion		(306,633)
Non-Current portion	$	250,883

NOTE 15 - STOCKHOLDERS' EQUITY

During the six months ended December 31, 2017, the Company issued 26,136 shares of common stock for services rendered by officers of the Company. These shares were valued at the fair market value of $163,350.

During the six months ended December 31, 2017, the Company issued 9,699 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 $55,080.

During the six months ended December 31, 2017, the Company issued 98,408 shares of its common stock to employees pursuant to the terms of their employment agreements valued at $605,107.

During the six months ended December 31, 2017, the Company collected subscription receivable of $76,511 related to the exercise of stock options in previous years.

During the six months ended December 31, 2017, the Company received $138,800 pursuant to a stock option agreement for the exercise of 35,773 shares of common stock at a price of $3.88 per share.

During the six months ended December 31, 2017, the Company paid $601,020 to purchase 139,275 of shares of its common stock from the open market at an average price of $4.32 per share.

NOTE 16 - INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

Common stock purchase options and warrants consisted of the following:

OPTIONS:

	# of shares	Weighted Ave Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregated Intrinsic Value
Outstanding and exercisable, June 30, 2016	610,133	$ 4.90	0.99	$ 799,030
Granted	79,838	$ 4.53		
Exercised	(84,838)	$ 4.49		
Expired / Cancelled	(130,000)	$ 7.50		
Outstanding and exercisable, June 30, 2017	475,133	$ 4.20	1.05	$ 8,413
Granted	-	-		
Exercised	(35,773)	$ 3.88		
Expired / Cancelled	(1,000)	$ 16.00		
Outstanding and exercisable, December 31, 2017	438,360	$ 4.20	0.57	$ 319,465

The following table summarizes information about stock options and warrants outstanding and exercisable at December 31, 2017.

Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Ave Exercise Price
OPTIONS:			
$ 3.88	384,898	0.49	$ 3.88
$ 6.50	53,462	1.10	$ 6.50
Totals	438,360	0.57	$ 4.20

The following table summarizes stock grants awarded as compensation:

	# of shares	Weighted Average Grant Date Fair Value ($)
Unvested, June 30, 2016	630,228	$ 6.07
Granted	222,146	$ 5.92
Forfeited / Cancelled	(5,000)	$ 5.55
Vested	(427,175)	$ 5.90
Unvested, June 30, 2017	420,199	$ 6.07
Vested	(134,243)	$ 6.13
Unvested, December 31, 2017	285,956	$ 6.18

For the three and six months ended December 31, 2017, the Company recorded compensation expense of $405,721 and $833,530, respectively. For the three and six months ended December 31, 2016, the Company recorded compensation expense of $682,640 and $1,547,579, respectively. The compensation expense related to the unvested stock grants as of December 31, 2017 was $1,731,908 which will be recognized during the fiscal years 2018 through 2022.

NOTE 17 – TAXES

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U. S. corporate income tax rates and implementing a territorial tax system. As the Company has a June 30 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal rate of approximately 28% for our fiscal year ending June 30, 2018, and 21% for subsequent fiscal years.

There are also certain transitional impacts of the Tax Act. As part of the transition to the new territorial tax system, the Tax Act imposes a one-time repatriation tax on deemed repatriation of historical earnings of foreign subsidiaries. As of December 31, 2017, the provisional undistributed earnings of foreign subsidiaries were $22.8 million which the Company anticipates being able to offset fully with net operating loss carry forwards. In addition, the modified territorial tax system includes a new anti-deferral provision, referred to as global intangible low taxed income (“GILTI”), which subjects certain foreign income to current U.S. tax.

The changes included in the Tax Act are broad and complex. The final transition impacts of the Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries.

In December 2017, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 118, “Income Tax Accounting Implications of the Tax Cuts and Jobs Act” (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Reform Act. Under SAB 118, companies are able to record a reasonable estimate of the impacts of the Tax Reform Act if one is able to be determined and report it as a provisional amount during the measurement period. The measurement period is not to extend beyond one year from the enactment date. Impacts of the Tax Reform Act that a company is not able to make a reasonable estimate for should not be recorded until a reasonable estimate can be made during the measurement period.

We currently anticipate finalizing and recording any resulting adjustments by the end of our current fiscal year ending June 30, 2018.

NOTE 18 – CONTINGENCIES

On April 7, 2017, Conister Bank Limited filed a complaint in the High Court of Justice Chancery Division, as claim no. HC-2017-001045 against our subsidiary, Virtual Lease Services Limited ("VLS"). The complaint alleges that VLS was in willful default of their agreements with Conister Bank Limited by failing to fulfill its obligations under the agreements with Conister. The complaint alleges damages in excess of £200,000 (approximately $270,270). VLS has responded to the complaint and its expenses are currently covered by available insurance. VLS denies all claims and intends to vigorously defend the action.

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, 2017 and June 30, 2017:

	As of December 31, 2017	As of June 30, 2017
Identifiable assets:		
Corporate headquarters	$ 3,308,334	$ 2,922,514
North America	5,513,464	6,717,366
Europe	6,590,233	6,056,514
Asia - Pacific	89,125,306	83,980,936
Consolidated	$ 104,537,337	$ 99,677,330

The following table presents a summary of investment under equity method as of December 31, 2017 and June 30, 2017:

	As of December 31, 2017	As of June 30, 2017
Investment in WRLD3D:		
Corporate headquarters	$ 1,033,486	$ 1,111,111
Asia - Pacific	2,356,315	1,945,909
Consolidated	$ 3,389,801	$ 3,057,020

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,	
	2017	2016 Restated	2017	2016 Restated
Revenues from unaffiliated customers:				
North America	$ 1,287,638	$ 1,513,997	$ 2,135,710	$ 3,355,428
Europe	1,661,213	1,298,037	3,109,037	1,888,578
Asia - Pacific	10,258,128	11,530,506	18,464,352	23,267,335
	13,206,979	14,342,540	23,709,099	28,511,341
Revenue from affiliated customers				
Europe	442,699	115,102	1,043,891	1,467,295
Asia - Pacific	796,757	1,401,144	2,512,221	2,956,619
	1,239,456	1,516,246	3,556,112	4,423,914
Consolidated	$ 14,446,435	$ 15,858,786	$ 27,265,211	$ 32,935,255
Intercompany revenue				
Europe	$ 139,228	$ 95,053	$ 241,703	$ 231,180
Asia - Pacific	768,431	1,462,603	1,145,368	1,922,554
Eliminated	$ 907,659	$ 1,557,656	$ 1,387,071	$ 2,153,734
Net income (loss) after taxes and before non-controlling interest:				
Corporate headquarters	$ (1,258,717)	$ (1,190,559)	$ (2,296,641)	$ (2,179,432)
North America	65,194	(71,134)	(230,452)	(266,817)
Europe	180,655	(698,364)	280,045	(1,293,771)
Asia - Pacific	2,674,870	583,327	3,727,785	2,746,393
Consolidated	$ 1,662,002	$ (1,376,730)	$ 1,480,737	$ (993,627)

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

	For the Six Months Ended December 31,	
	2017	2016
Capital expenditures:		
North America	$ -	$ 41,275
Europe	123,335	273,794
Asia - Pacific	419,788	759,247
Consolidated	$ 543,123	$ 1,074,316

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, 2017
NetSol PK	33.83%	$ 12,386,620
NetSol-Innovation	49.90%	1,749,551
VLS, VLSH & VLSIL Combined	49.00%	407,132
NetSol Thai	0.006%	(79)
Total		$ 14,543,224

SUBSIDIARY	Non-Controlling Interest %	Non-Controlling Interest at June 30, 2017
NetSol PK	33.80%	$ 12,887,938
NetSol-Innovation	49.90%	1,599,734
VLS, VLHS & VLSIL Combined	49.00%	311,502
NetSol Thai	0.006%	(92)
Total		$ 14,799,082

<u>**NetSol PK**</u>

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.

NOTE 21 – RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During the preparation of the Company's Form 10-Q for the nine months ended March 31, 2017, misstatements were identified in the previous financial statements relating to the recording of revenue in the proper period. The restated financial statements for the periods affected were disclosed in Note 19 of the Notes to Condensed Consolidated Financial Statement contained in the Company's Form 10-Q for the nine months ended March 31, 2017.

On December 21, 2015, the Company signed a 10-year contract for a 12-country installation of its NFS Ascent product which included a perpetual license, continued maintenance on the existing product and then maintenance on NFS Ascent upon installation. The Company did not appropriately apply the percentage-of-completion method for this arrangement in accordance with ASC 605-35. As a result, for quarter ended September 30, 2016, license revenue was understated by $1,953,935 and for the quarter ended December 31, 2016, license revenue was overstated by $1,580,529.

The Company charges maintenance revenue on the license value plus any additional customization that the customer may require. For one customer, the Company did not increase the maintenance fee for the additional customization that was performed during the year. This resulted in an understatement of maintenance revenue of $120,976 for the quarter ended September 30, 2016 and an overstatement of maintenance revenue of $198,797 for the quarter ended December 31, 2016.

The following tables present the restated financial statements for the three and six months ended December 31, 2016.

	Balance Sheet As of December 31, 2016		
	As Originally Presented	Amount of Restatement	As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 9,505,383		$ 9,505,383
Accounts receivable, net of allowance of $495,760 and $492,498	5,840,490		5,840,490
Accounts receivable, net - related party	4,303,380		4,303,380
Revenues in excess of billings	17,646,488	373,406	18,019,894
Revenues in excess of billings - related party	469,030		469,030
Other current assets	2,904,650		2,904,650
Total current assets	40,669,421	373,406	41,042,827
Restricted cash	90,000		90,000
Property and equipment, net	21,873,277		21,873,277
Other assets	2,054,938		2,054,938
Intangible assets, net	18,423,439		18,423,439
Goodwill	9,516,568		9,516,568
Total assets	$ 92,627,643	$ 373,406	$ 93,001,049
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	$ 7,373,097		$ 7,373,097
Current portion of loans and obligations under capitalized leases	4,368,930		4,368,930
Unearned revenues	2,806,804	77,821	2,884,625
Common stock to be issued	88,324		88,324
Total current liabilities	14,637,155	77,821	14,714,976
Long term loans and obligations under capitalized leases; less current maturities	501,554		501,554
Total liabilities	15,138,709	77,821	15,216,530
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, $.01 par value; 500,000 shares authorized;	-	-	-
Common stock, $.01 par value; 14,500,000 shares authorized; 10,993,054 shares issued and 10,958,275 outstanding as of December 31, 2016 and 10,713,372 shares issued and 10,686,093 outstanding as of June 30, 2016	109,931		109,931
Additional paid-in-capital	123,019,215		123,019,215
Treasury stock (34,779 shares and 27,279 shares)	(454,310)		(454,310)
Accumulated deficit	(40,074,755)	196,890	(39,877,865)
Stock subscription receivable	(450,220)		(450,220)
Other comprehensive loss	(18,628,395)		(18,628,395)
Total NetSol stockholders' equity	63,521,466	196,890	63,718,356
Non-controlling interest	13,967,468	98,695	14,066,163
Total stockholders' equity	77,488,934	295,585	77,784,519
Total liabilities and stockholders' equity	$ 92,627,643	$ 373,406	$ 93,001,049

	For the Three Months Ended December 31, 2016			For the Six Months Ended December 31, 2016		
	As Originally Presented	Amount of Restatement	As Restated	As Originally Presented	Amount of Restatement	As Restated
Net Revenues:						
License fees	$ 5,350,086	$ (1,580,529)	$ 3,769,557	$ 8,849,946	$ 373,406	$ 9,223,352
Maintenance fees	3,787,696	(198,797)	3,588,899	7,190,517	(77,821)	7,112,696
Services	6,984,084		6,984,084	12,790,801		12,790,801
License fees - related party	-		-	246,957		246,957
Maintenance fees - related party	51,345		51,345	181,976		181,976
Services - related party	1,464,901		1,464,901	3,379,473		3,379,473
Total net revenues	17,638,112	(1,779,326)	15,858,786	32,639,670	295,585	32,935,255
Cost of revenues:						
Salaries and consultants	5,979,804		5,979,804	11,873,153		11,873,153
Travel	836,240		836,240	1,548,135		1,548,135
Depreciation and amortization	1,318,764		1,318,764	2,649,636		2,649,636
Other	1,065,727		1,065,727	2,038,065		2,038,065
Total cost of revenues	9,200,535	-	9,200,535	18,108,989	-	18,108,989
Gross profit	8,437,577	(1,779,326)	6,658,251	14,530,681	295,585	14,826,266
Operating expenses:						
Selling and marketing	2,713,478		2,713,478	5,057,516		5,057,516
Depreciation and amortization	271,485		271,485	540,582		540,582
General and administrative	3,933,413		3,933,413	8,552,609		8,552,609
Research and development cost	91,607		91,607	184,539		184,539
Total operating expenses	7,009,983	-	7,009,983	14,335,246	-	14,335,246
Income (loss) from operations	1,427,594	(1,779,326)	(351,732)	195,435	295,585	491,020
Other income and (expenses)						
Loss on sale of assets	(32,339)		(32,339)	(34,742)		(34,742)
Interest expense	(62,127)		(62,127)	(116,602)		(116,602)
Interest income	23,416		23,416	53,856		53,856
Loss on foreign currency exchange transactions	(621,887)		(621,887)	(1,036,783)		(1,036,783)
Other income	6,823		6,823	28,383		28,383
Total other income (expenses)	(686,114)	-	(686,114)	(1,105,888)	-	(1,105,888)
Net income (loss) before income taxes	741,480	(1,779,326)	(1,037,846)	(910,453)	295,585	(614,868)
Income tax provision	(338,884)		(338,884)	(378,759)		(378,759)
Net income (loss) from continuing operations	402,596	(1,779,326)	(1,376,730)	(1,289,212)	295,585	(993,627)
Non-controlling interest	(1,388,272)	596,608	(791,664)	(1,462,183)	(98,695)	(1,560,878)
Net income (loss) attributable to NetSol	$ (985,676)	$ (1,182,718)	$ (2,168,394)	$ (2,751,395)	$ 196,890	$ (2,554,505)
Net income (loss) per share:						
Net income (loss) per common share						
Basic	$ (0.09)	$ (0.11)	$ (0.20)	$ (0.26)	$ 0.03	$ (0.24)
Diluted	$ (0.09)	$ (0.11)	$ (0.20)	$ (0.26)	$ 0.03	$ (0.24)
Weighted average number of						

shares outstanding						
Basic	10,877,446	10,877,446	10,877,446	10,783,685	10,783,685	10,783,685
Diluted	10,877,446	10,877,446	10,877,446	10,783,685	10,783,685	10,783,685

	For the Three Months Ended December 31, 2016		
	As Originally Presented	Amount of Restatement	As Restated
Net income (loss)	$ (985,676)	$ (1,182,718)	$ (2,168,394)
Other comprehensive income (loss):			
Translation adjustment	(944,837)	-	(944,837)
Comprehensive income (loss)	(1,930,513)	(1,182,718)	(3,113,231)
Comprehensive income (loss) attributable to non-controlling interest	(276,575)	-	(276,575)
Comprehensive income (loss) attributable to NetSol	$ (1,653,938)	$ (1,182,718)	$ (2,836,656)

	For the Six Months Ended December 31, 2016		
	As Originally Presented	Amount of Restatement	As Restated
Net income (loss)	$ (2,751,395)	$ 262,469	$ (2,488,926)
Other comprehensive income (loss):			
Translation adjustment	149,237	-	149,237
Comprehensive income (loss)	(2,602,158)	262,469	(2,339,689)
Comprehensive income (loss) attributable to non-controlling interest	47,138	-	47,138
Comprehensive income (loss) attributable to NetSol	$ (2,649,296)	$ 262,469	$ (2,386,827)

	For the Six Months Ended December 31, 2016		
	As Originally Presented	Amount of Restatement	As Restated
Cash flows from operating activities:			
Net income (loss)	$ (1,289,212)	$ 295,585	$ (993,627)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	3,190,218		3,190,218
Provision for bad debts	1,026		1,026
Loss on sale of assets	34,742		34,742
Stock issued for services	1,525,775		1,525,775
Fair market value of warrants and stock options granted	21,804		21,804
Changes in operating assets and liabilities:			
Accounts receivable	3,678,110		3,678,110
Accounts receivable - related party	829,285		829,285
Revenues in excess of billing	(7,219,089)	(373,406)	(7,592,495)
Revenues in excess of billing - related party	285,791		285,791
Other current assets	585,147		585,147
Accounts payable and accrued expenses	334,241		334,241
Unearned revenue	(1,908,440)	77,821	(1,830,619)
Net cash used in operating activities	69,398	-	69,398
Cash flows from investing activities:			
Purchases of property and equipment	(1,074,316)		(1,074,316)
Sales of property and equipment	181,087		181,087
Purchase of treasury stock	(38,885)		(38,885)
Investment	(705,555)		(705,555)
Net cash used in investing activities	(1,637,669)	-	(1,637,669)
Cash flows from financing activities:			
Proceeds from the exercise of stock options and warrants	429,452		429,452
Proceeds from exercise of subsidiary options	18,089		18,089
Dividend paid by subsidiary to Non controlling interest	(968,657)		(968,657)
Payments on capital lease obligations and loans - net	(69,998)		(69,998)
Net cash provided by financing activities	(591,114)	-	(591,114)
Effect of exchange rate changes	107,241		107,241
Net decrease in cash and cash equivalents	(2,052,144)	-	(2,052,144)
Cash and cash equivalents, beginning of the period	11,557,527		11,557,527
Cash and cash equivalents, end of period	$ 9,505,383	$ -	$ 9,505,383

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, 2017. 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, 2017, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Information

This report contains certain forward-looking statements and information relating to the Company that is based on the beliefs of its management as well as assumptions made by and information currently available to its management. When used in this report, the words "anticipate", "believe", "estimate", "expect", "intend", "plan", and similar expressions as they relate to the Company or its management, are intended to identify forward-looking statements. These statements reflect management's current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this report as anticipated, estimated or expected. The Company's realization of its business aims could be materially and adversely affected by any technical or other problems in, or difficulties with, planned funding and technologies, third party technologies which render the Company's technologies obsolete, the unavailability of required third party technology licenses on commercially reasonable terms, the loss of key research and development personnel, the inability or failure to recruit and retain qualified research and development personnel, or the adoption of technology standards which are different from technologies around which the Company's business ultimately is built. The Company does not intend to update these forward-looking statements.

Business Overview

NetSol Technologies, Inc. (NasdaqCM: NTWK) is a worldwide provider of IT and enterprise software solutions. We believe that our solutions constitute mission critical applications for clients, as they encapsulate end-to-end business processes, facilitating faster processing and increased transactions.

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

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

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

- North America — 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, 2017:

- We amended the 12 county NFS Ascent™ contract securing €7.7 million Euros (approximately $9.3 million) in future revenues in addition to what was previously projected from the customer. The revenue will be recognized over the contract term as the support services are performed.
- Pursuant to the 12 country NFS Ascent™ contract, we successfully implemented the Loan Origination System and the Wholesale Financial System in Thailand and Korea, respectively.
- Pursuant to the 12 country NFS Ascent™ contract, we delivered the first major release of NFS Ascent™ to China.

- An increase in software modification requests from some of our existing customers spread across the various regions contributed reasonably to the revenues for the quarter. A trend which is believed will be continued in the following quarters.
- We signed a chargeable proof of concept agreement with one of the oldest and largest banks in Australia. The proof of concept project will add to our revenues and assist us in making further progress in the selection process for our NFS Ascent™ product.
- Mizhou Balimore, a Japanese bank in Indonesia, went live with the first phase of its NFS Ascent™ digital solution.
- Our existing customer, an auto finance company of a leading bank in Indonesia, kicked off its leasing project. We believe that this is likely to help increase revenues in the following quarters of the current fiscal year. This kick off has further strengthened our relationship with this Indonesian business partner paving the way for further success in the market. Additionally, all the branches of the same business partner successfully went live with NFS Ascent™ during the first quarter of the current fiscal year culminating into a maturing and long-standing delivery commitment.
- NFS Ascent™ and Ascent Digital continue to generate interest across all major regions and industries as some significant new prospects have come through the pipeline, further strengthening projections and forecasts. Revenue could also be boosted as customization requests grow in addition to new business volume.

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

Management has identified the following material trends affecting NetSol.

Positive trends:

- Improving U.S. economy generally, and particularly auto and banking markets.
- According to Automotive World December 2017 publication, global demand for light weight trucks is expected to reach an all-time high in 2018.
- Total industry sales of more than 20 million vehicles annually by 2018, according to John Murphy, an analyst for Bank of America Merrill Lynch annual industry outlook.
- Robust Chinese markets as asset based leasing and finance sector are far from maturity levels.
- Latin American markets, primarily in Mexico, remain largely untapped.
- Pakistan economy growth in gross domestic product reached 4.7% in 2016, according to the Pakistan Bureau of Statistics; and improved credit ratings by Bloomberg, S&P, Moody's and Forbes Pakistan security and geopolitical environment has improved.
- China investment or CPEC (China Pakistan Economic Corridor) has exceeded $50 billion from originally $46 billion in Pakistan on energy and infrastructure projects.
- New emerging markets and IT destinations in Thailand, Malaysia, Indonesia, China and Australia.
- Continued interest from Fortune 500 multinational auto captives and global companies in NetSol Ascent™.
- Continuing interest from existing clients in the NFS™ legacy systems in emerging and developing markets.
- Growing demand and traction for upgrading to NFS Ascent™ by existing tier one auto captive clients.
- Increased visits to NetSol PK by senior executives of existing clients and potential new customers.

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.
- 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.

CHANGES IN FINANCIAL CONDITION

Quarter Ended December 31, 2017 compared to December 31, 2016

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the quarter ended December 31, 2017 and 2016 as a percentage of revenues.

	For the Three Months Ended December 31,			
	2017	%	2016 Restated	%
Net Revenues:				
License fees	$ 235,932	1.63%	$ 3,769,557	23.77%
Maintenance fees	3,568,448	24.70%	3,588,899	22.63%
Services	9,087,191	62.90%	6,619,158	41.74%
License fees - related party	217,105	1.50%	-	0.00%
Maintenance fees - related party	101,251	0.70%	51,345	0.32%
Services - related party	1,236,508	8.56%	1,829,827	11.54%
Total net revenues	14,446,435	100.00%	15,858,786	100.00%
Cost of revenues:				
Salaries and consultants	5,362,092	37.12%	5,979,804	37.71%
Travel	287,901	1.99%	836,240	5.27%
Depreciation and amortization	1,168,103	8.09%	1,318,764	8.32%
Other	939,986	6.51%	1,065,727	6.72%
Total cost of revenues	7,758,082	53.70%	9,200,535	58.02%
Gross profit	6,688,353	46.30%	6,658,251	41.98%
Operating expenses:				
Selling and marketing	1,932,140	13.37%	2,713,478	17.11%
Depreciation and amortization	222,785	1.54%	271,485	1.71%
Provision for bad debts	-	0.00%	1,026	0.01%
General and administrative	4,026,706	27.87%	3,932,387	24.80%
Research and development cost	189,891	1.31%	91,607	0.58%
Total operating expenses	6,371,522	44.10%	7,009,983	44.20%
Income (loss) from operations	316,831	2.19%	(351,732)	-2.22%
Other income and (expenses)				
Loss on sale of assets	(8,939)	-0.06%	(32,339)	-0.20%
Interest expense	(109,675)	-0.76%	(62,127)	-0.39%
Interest income	115,570	0.80%	23,416	0.15%
Gain (loss) on foreign currency exchange transactions	1,737,967	12.03%	(621,887)	-3.92%
Share of net loss from equity investment	(203,336)	-1.41%	-	0.00%
Other income	14,511	0.10%	6,823	0.04%
Total other income (expenses)	1,546,098	10.70%	(686,114)	-4.33%
Net income (loss) before income taxes	1,862,929	12.90%	(1,037,846)	-6.54%
Income tax provision	(200,927)	-1.39%	(338,884)	-2.14%
Net income (loss)	1,662,002	11.50%	(1,376,730)	-8.68%
Non-controlling interest	(1,027,581)	-7.11%	(791,664)	-4.99%
Net income (loss) attributable to NetSol	$ 634,421	4.39%	$ (2,168,394)	-13.67%

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
	2017	%	2016 Restated	%			
Net Revenues:	14,446,435	100.00%	15,858,786	100.00%	(1,506,082)	93,731	(1,412,351)
Cost of revenues:	7,758,082	53.70%	9,200,535	58.02%	1,473,242	(30,789)	1,442,453
Gross profit	6,688,353	46.30%	6,658,251	41.98%	(32,840)	62,942	30,102
Operating expenses:	6,371,522	44.10%	7,009,983	44.20%	730,914	(92,453)	638,461
Income (loss) from operations	316,831	2.19%	(351,732)	-2.22%	698,074	(29,511)	668,563

Net revenues for the quarter ended December 31, 2017 and 2016 are broken out among the segments as follows:

	2017		2016	
	Revenue	%	Revenue Restated	%
North America	$ 1,287,638	8.91%	$ 1,513,997	9.55%
Europe	2,103,912	14.56%	1,413,139	8.91%
Asia-Pacific	11,054,885	76.52%	12,931,650	81.54%
Total	$ 14,446,435	100.00%	$ 15,858,786	100.00%

Revenues

License fees

License fees for the three months ended December 31, 2017 were $235,932 compared to $3,769,557 for the three months ended December 31, 2016 reflecting a decrease of $3,533,625 with a change in constant currency of $3,556,109. The decrease in license revenue for the fiscal three months ended December 31, 2017 compared to 2016 is primarily due to the decrease of license revenue recognized for the 12 country NFS Ascent™ contract. During the current quarter, we had license revenues through sales of our regional offerings in the U.S. and the U.K.

License fees – related party

License fees from related party for the three months ended December 31, 2017 were $217,105 compared to $Nil for the three months ended December 31, 2016 reflecting an increase of $217,105 with a change in constant currency of $210,400.

Maintenance fees

Maintenance fees for the three months ended December 31, 2017 were $3,568,448 compared to $3,588,899 for the three months ended December 31, 2016 reflecting a decrease of $20,451 with a change in constant currency of $51,595. 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 three months ended December 31, 2017 were $101,251 compared to $51,345 for the three months ended December 31, 2016 reflecting an increase of $49,906 with a change in constant currency of $44,670. The decrease was due to the fluctuation in usage of active users.

Services

Services income for the three months ended December 31, 2017 was $9,087,191 compared to $6,619,158 for the three months ended December 31, 2016 reflecting an increase of $2,468,033 with a change in constant currency of $2,451,053. The services revenue increase 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 three months ended December 31, 2017 was $1,236,508 compared to $1,829,827 for the three months ended December 31, 2016 reflecting a decrease of $593,319 with a change in constant currency of $604,501. The decrease in related party service revenue is due to a decrease in revenue from our joint venture with 1insurer.

Gross Profit

The gross profit was $6,688,353, for the three months ended December 31, 2017 as compared with $6,658,251 for the three months ended December 31, 2016. This is an increase of $30,102 with a decrease in constant currency of $32,840. The gross profit percentage for the three months ended December 31, 2017 increased to 46.30% from 41.98% for the three months ended December 31, 2016. The cost of sales was $7,758,082 for the three months ended December 31, 2017 compared to $9,200,535 for the three months ended December 31, 2016 for a decrease of $1,442,453 and on a constant currency basis a decrease of $1,473,242. As a percentage of sales, cost of sales decreased from 58.02% for the three months ended December 31, 2016 to 53.70% for the three months ended December 31, 2017.

Salaries and consultant fees decreased by $617,712 from $5,979,804 for the three months ended December 31, 2016 to $5,362,092 for the three months ended December 31, 2017 and on a constant currency basis decreased $629,888. 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 37.71% for the three months ended December 31, 2016 to 37.12% for the three months ended December 31, 2017.

Depreciation and amortization expense decreased to $1,168,103 compared to $1,318,764 for the three months ended December 31, 2016 or a decrease of $150,661 and on a constant currency basis a decrease of $143,439. Depreciation and amortization expense decreased as some products became fully amortized.

Operating Expenses

Operating expenses were $6,371,522 for the three months ended December 31, 2017 compared to $7,009,983, for the three months ended December 31, 2016 for a decrease of 9.11% or $638,461 and on a constant currency basis a decrease of 10.43% or $730,914. As a percentage of sales, it decreased from 44.2% to 44.1%. The decrease in operating expenses was primarily due to decreases in selling and marketing expenses, salaries and wages, and depreciation.

Selling and marketing expenses decreased by $781,338 or 28.79% and on a constant currency basis a decrease of $816,557 or 30.09%. The decrease in selling and marketing expenses is due to reduction in staff, decrease in our salaries and commissions, travel expenses, and business development costs to market and sell NFS Ascent™ globally.

General and administrative expenses were $4,026,706 for the three months ended December 31, 2017 compared to $3,933,413 at December 31, 2016 or an increase of $93,293 or 2.37% and on a constant currency basis an increase of $42,545 or 1.08%. During the three months ended December 31, 2017, salaries decreased by approximately $155,400 or $174,016 on a constant currency basis due to the decrease in the number of employees, minimal annual raises, less share grants and options, offset by an increase in professional services of approximately $73,308 or $69,760 on a constant currency basis and other general and administrative expenses of approximately $176,411 or $147,827 on a constant currency basis.

Income/Loss from Operations

Income from operations was $316,831 for the three months ended December 31, 2017 compared to loss of $351,732 for the three months ended December 31, 2016. This represents an increase of $668,563 with an increase of $698,074 on a constant currency basis for the three months ended December 31, 2017 compared with the three months ended December 31, 2016. As a percentage of sales, income from operations was 2.19% for the three months ended December 31, 2017 compared to a loss of 2.22% for the three months ended December 31, 2016.

Other income and expense

Other income was $1,546,098 for the three months ended December 31, 2017 compared with a loss of $686,114 for the three months ended December 31, 2016. This represents an increase of $2,232,212 with an increase of $2,243,765 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 Pakistan Rupee ("PKR") compared to the U.S. dollar and the Euro. In December 2017, Pakistan's central bank withdrew its support of the PKR, which caused the PKR to drop in value. During the three months ended December 31, 2017, we recognized a gain of $1,737,967 in foreign currency exchange transactions compared to a loss of $621,887 for the three months ended December 31, 2016. During the three months ended December 31, 2017, the value of the U.S. dollar and the Euro increased 4.30% and 5.76%, respectively, compared to the PKR. During the three months ended December 31, 2016, the value of the U.S. dollar increased 1.08% and the Euro decreased 5.14% compared to the PKR.

Non-controlling Interest

For the three months ended December 31, 2017 and 2016, the net income attributable to non-controlling interest was $1,027,581 and $791,664, 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 / Loss attributable to NetSol

Net income was $634,421 for the three months ended December 31, 2017 compared to a loss of $2,168,394 for the three months ended December 31, 2016. This is an increase of $2,802,815 with an increase of $2,843,590 on a constant currency basis, compared to the prior year. For the three months ended December 31, 2017, net income per share was $0.06 for basic and diluted shares compared to a loss of $0.20 for basic and diluted shares for the three months ended December 31, 2016.

Six Months Ended December 31, 2017 compared to December 31, 2016

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the six months ended December 31, 2017 and 2016 as a percentage of revenues.

	For the Six Months Ended December 31,			
	2017	%	2016 Restated	%
Net Revenues:				
License fees	$ 561,998	2.06%	$ 9,223,352	28.00%
Maintenance fees	7,042,173	25.83%	7,112,696	21.60%
Services	16,104,928	59.07%	12,175,293	36.97%
License fees - related party	261,513	0.96%	246,957	0.75%
Maintenance fees - related party	204,214	0.75%	181,976	0.55%
Services - related party	3,090,385	11.33%	3,994,981	12.13%
Total net revenues	27,265,211	100.00%	32,935,255	100.00%
Cost of revenues:				
Salaries and consultants	10,826,252	39.71%	11,873,153	36.05%
Travel	801,013	2.94%	1,548,135	4.70%
Depreciation and amortization	2,341,216	8.59%	2,649,636	8.04%
Other	1,796,568	6.59%	2,038,065	6.19%
Total cost of revenues	15,765,049	57.82%	18,108,989	54.98%
Gross profit	11,500,162	42.18%	14,826,266	45.02%
Operating expenses:				
Selling and marketing	3,643,436	13.36%	5,057,516	15.36%
Depreciation and amortization	468,658	1.72%	540,582	1.64%
Provision for bad debts	-	0.00%	1,026	0.00%
General and administrative	7,814,264	28.66%	8,551,583	25.96%
Research and development cost	374,976	1.38%	184,539	0.56%
Total operating expenses	12,301,334	45.12%	14,335,246	43.53%
Income (loss) from operations	(801,172)	-2.94%	491,020	1.49%
Other income and (expenses)				
Loss on sale of assets	(16,069)	-0.06%	(34,742)	-0.11%
Interest expense	(227,746)	-0.84%	(116,602)	-0.35%
Interest income	252,481	0.93%	53,856	0.16%
Gain (loss) on foreign currency exchange transactions	2,754,329	10.10%	(1,036,783)	-3.15%
Share of net loss from equity investment	(270,898)	-0.99%	-	0.00%
Other income	15,610	0.06%	28,383	0.09%
Total other income (expenses)	2,507,707	9.20%	(1,105,888)	-3.36%
Net income (loss) before income taxes	1,706,535	6.26%	(614,868)	-1.87%
Income tax provision	(225,798)	-0.83%	(378,759)	-1.15%
Net income (loss)	1,480,737	5.43%	(993,627)	-3.02%
Non-controlling interest	(1,215,814)	-4.46%	(1,560,878)	-4.74%
Net income (loss) attributable to NetSol	$ 264,923	0.97%	$ (2,554,505)	-7.76%

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 Six Months Ended December 31,				Favorable (Unfavorable) Change in Constant Currency	Favorable (Unfavorable) Change due to Currency Fluctuation	Total Favorable (Unfavorable) Change as Reported
	2017	%	2016 Restated	%			
Net Revenues:	27,265,211	100.00%	32,935,255	100.00%	(5,650,244)	(19,800)	(5,670,044)
Cost of revenues:	15,765,049	57.82%	18,108,989	54.98%	2,269,770	74,170	2,343,940
Gross profit	11,500,162	42.18%	14,826,266	45.02%	(3,380,474)	54,370	(3,326,104)
Operating expenses:	12,301,334	45.12%	14,335,246	43.53%	2,097,944	(64,032)	2,033,912
Income (loss) from operations	(801,172)	-2.94%	491,020	1.49%	(1,282,530)	(9,662)	(1,292,192)

Net revenues for the six months ended December 31, 2017 and 2016 are broken out among the segments as follows:

	2017		2016	
	Revenue	%	Revenue Restated	%
North America	$ 2,135,710	7.83%	$ 3,355,428	10.19%
Europe	4,152,928	15.23%	3,355,873	10.19%
Asia-Pacific	20,976,573	76.94%	26,223,954	79.62%
Total	$ 27,265,211	100.00%	$ 32,935,255	100.00%

Revenues

License fees

License fees for the six months ended December 31, 2017 were $561,998 compared to $9,223,352 for the six months ended December 31, 2016 reflecting a decrease of $8,661,354 with a change in constant currency of $8,683,204. The decrease in license revenue for the fiscal six months ended December 31, 2017 compared to 2016 is primarily due to the decrease of license revenue recognized for the 12 country NFS Ascent™ contract. During the current quarter, we had license revenues through sales of our regional offerings in the U.S. and the U.K.

License fees – related party

License fees from related party for the six months ended December 31, 2017 were $261,513 compared to $246,957 for the six months ended December 31, 2016 reflecting an increase of $14,556 with a change in constant currency of $7,851.

Maintenance fees

Maintenance fees for the six months ended December 31, 2017 were $7,042,173 compared to $7,112,696 for the six months ended December 31, 2016 reflecting a decrease of $70,523 with a change in constant currency of $80,252. 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, 2017 were $204,214 compared to $181,976 for the six months ended December 31, 2016 reflecting an increase of $22,238 with a change in constant currency of $17,002. The increase was due to the fluctuation in usage of active users.

Services

Services income for the six months ended December 31, 2017 was $16,104,928 compared to $12,175,293 for the six months ended December 31, 2016 reflecting an increase of $3,929,635 with a change in constant currency of $3,987,343. The services revenue increase 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, 2017 was $3,090,385 compared to $3,994,981 for the six months ended December 31, 2016 reflecting a decrease of $904,596 with a change in constant currency of $898,984. The decrease in related party service revenue is due to a decrease in revenue from our joint venture with the company, 1insurer.

Gross Profit

The gross profit was $11,500,162, for the six months ended December 31, 2017 as compared with $14,826,266 for the six months ended December 31, 2016. This is a decrease of $3,326,104 with a change in constant currency of $3,380,474. The gross profit percentage for the six months ended December 31, 2017 decreased to 42.18% from 45.02% for the six months ended December 31, 2016. The cost of sales was $15,765,049 for the six months ended December 31, 2017 compared to $18,108,989 for the six months ended December 31, 2016 for a decrease of $2,343,940 and on a constant currency basis a decrease of $2,269,770. As a percentage of sales, cost of sales increased from 54.98% for the six months ended December 31, 2016 to 57.82% for the six months ended December 31, 2017.

Salaries and consultant fees decreased by $1,046,901 from $11,873,153 for the six months ended December 31, 2016 to $10,826,252 for the six months ended December 31, 2017 and on a constant currency basis decreased $972,201. 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 increased from 36.05% for the six months ended December 31, 2016 to 39.71% for the six months ended December 31, 2017.

Depreciation and amortization expense decreased to $2,341,216 compared to $2,649,636 for the six months ended December 31, 2016 or a decrease of $308,420 and on a constant currency basis a decrease of $283,783. Depreciation and amortization expense decreased as some products became fully amortized.

Operating Expenses

Operating expenses were $12,301,334 for the six months ended December 31, 2017 compared to $14,335,246, for the six months ended December 31, 2016 for a decrease of 14.19% or $2,033,912 and on a constant currency basis a decrease of 14.63% or $2,097,944. As a percentage of sales, it increased from 43.53% to 45.12%. The decrease in operating expenses was primarily due to decreases in selling and marketing expenses, salaries and wages and depreciation.

Selling and marketing expenses decreased by $1,414,080 or 27.96% and on a constant currency basis a decrease of $1,445,637 or 28.58%. The decrease in selling and marketing expenses is due to reduction in staff, decrease in our salaries and commissions, travel expenses, and business development costs to market and sell NFS Ascent™ globally.

General and administrative expenses were $7,814,264 for the six months ended December 31, 2017 compared to $8,552,609 at December 31, 2016 or a decrease of $738,345 or 8.63% and on a constant currency basis an increase of $768,732 or 8.99%. During the six months ended December 31, 2017, salaries decreased by approximately $1,052,356 or $1,043,147 on a constant currency basis due to the decrease in the number of employees, minimal annual raises, less share grants and options, offset by an increase in other general and administrative expenses of approximately $249,382 or $213,461 on a constant currency basis and professional services approximately $65,655 or $61,980 on constant currency bases.

Loss from Operations

Loss from operations was $801,172 for the six months ended December 31, 2017 compared to income of $491,020 for the six months ended December 31, 2016. This represents a decrease of $1,292,192 with a decrease of $1,282,530 on a constant currency basis for the six months ended December 31, 2017 compared with the six months ended December 31, 2016. As a percentage of sales, loss from operations was 2.94% for the six months ended December 31, 2017 compared to income of 1.49% for the six months ended December 31, 2016.

Other Income and Expense

Other income was $2,507,707 for the six months ended December 31, 2017 compared with a loss of $1,105,888 for the six months ended December 31, 2016. This represents an increase of $3,613,595 with an increase of $3,641,001 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. In December 2017, Pakistan's central bank withdrew its support of the PKR, which caused the PKR to drop in value. During the six months ended December 31, 2017, we recognized a gain of $2,754,329 in foreign currency exchange transactions compared to a loss of $1,036,783 for the six months ended December 31, 2017. During the six months ended December 31, 2017, the value of the U.S. dollar and the Euro increased 5.63% and 10.77%, respectively, compared to the PKR. During the six months ended December 31, 2016, the value of the U.S. dollar and the Euro decreased 0.69% and 5.93%, respectively, compared to the PKR.

Non-controlling Interest

For the six months ended December 31, 2017 and 2016, the net income attributable to non-controlling interest was $1,215,814 and $1,560,878, respectively. The decrease in non-controlling interest is primarily due to the decrease in net income of NetSol Innovation.

Net Income / Loss attributable to NetSol

Net income was $264,923 for the six months ended December 31, 2017 compared to a loss of $2,554,505 for the six months ended December 31, 2016. This is an increase of $2,819,428 with an increase of $2,851,849 on a constant currency basis, compared to the prior year. For the six months ended December 31, 2017, net income per share was $0.02 for basic and diluted shares compared to a loss of $0.24 for basic and diluted shares for the six months ended December 31, 2016.

Non-GAAP Financial Measures

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

We define the non-GAAP measures as follows:

- EBITDA is GAAP net income or loss before net interest expense, income tax expense, depreciation and amortization.
- Non-GAAP adjusted EBITDA is EBITDA less stock-based compensation expense.
- Adjusted EBITDA per basic and diluted share – Adjusted EBITDA allocated to common stock divided by the weighted average shares outstanding and diluted shares outstanding.

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

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

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

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

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

Our reconciliation of the non-GAAP financial measures of adjusted EBITDA and non-GAAP earnings per basic and diluted share to the most comparable GAAP measures for the three and six months ended December 31, 2017 and 2016 are as follows:

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016 Restated	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016 Restated
Net Income (loss) before preferred dividend, per GAAP	$ 634,421	$ (2,168,394)	$ 264,923	$ (2,554,505)
Non-controlling interest	1,027,581	791,664	1,215,814	1,560,878
Income taxes	200,927	338,884	225,798	378,759
Depreciation and amortization	1,390,888	1,590,249	2,809,874	3,190,218
Interest expense	109,675	62,127	227,746	116,602
Interest (income)	(115,570)	(23,416)	(252,481)	(53,856)
EBITDA	$ 3,247,922	$ 591,114	$ 4,491,674	$ 2,638,096
Add back:				
Non-cash stock-based compensation	405,721	660,319	833,530	1,547,579
Adjusted EBITDA, gross	$ 3,653,643	$ 1,251,433	$ 5,325,204	$ 4,185,675
Less non-controlling interest (a)	(1,562,303)	(1,550,729)	(2,264,167)	(3,183,972)
Adjusted EBITDA, net	$ 2,091,340	$ (299,296)	$ 3,061,037	$ 1,001,703
Weighted Average number of shares outstanding				
Basic	11,159,075	10,877,446	11,115,346	10,783,685
Diluted	11,171,543	10,877,446	11,127,814	10,939,177
Basic adjusted EBITDA	$ 0.19	$ (0.03)	$ 0.28	$ 0.09
Diluted adjusted EBITDA	$ 0.19	$ (0.03)	$ 0.28	$ 0.09
(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	$ 1,027,581	$ 791,664	$ 1,215,814	$ 1,560,878
Income Taxes	29,945	23,907	40,423	37,781
Depreciation and amortization	465,138	730,672	932,320	1,556,538
Interest expense	34,463	12,991	73,535	31,333
Interest (income)	(36,918)	(34,947)	(82,075)	(51,397)
EBITDA	$ 1,520,209	$ 1,524,287	$ 2,180,017	$ 3,135,133
Add back:				
Non-cash stock-based compensation	42,094	26,442	84,150	48,839
Adjusted EBITDA of non-controlling interest	$ 1,562,303	$ 1,550,729	$ 2,264,167	$ 3,183,972

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was $10,004,650 at December 31, 2017, compared to $14,172,954 at June 30, 2017.

Net cash used in operating activities was $2,054,989 for the six months ended December 31, 2017 compared to net cash provided by operating activities of $69,398 for the six months ended December 31, 2016. At December 31, 2017, we had current assets of $51,464,501 and current liabilities of $27,864,068. We had accounts receivable of $21,689,080 at December 31, 2017 compared to $8,228,141 at June 30, 2017. The increase in accounts receivable includes $8,433,735 due to billing for the code split per the amended DFS contract of which approximately $4,216,737 was received in January 2018. We had revenues in excess of billings of $22,870,442 at December 31, 2017 compared to $24,380,632 at June 30, 2017 of which $6,668,854 and $5,173,538 is shown as long term as of December 31, 2017 and June 30, 2017, respectively. The long-term portion is discounted by $284,394 and $310,331 at December 31, 2017 and June 30, 2017, respectively, using the discounted cash flow method with interest rates ranging from 3.93% to 4.43% which is NetSol PK's weighted average borrowing rate. During the six months ended December 31, 2017, our revenues in excess of billings were reclassified to accounts receivable pursuant to billing requirements detailed in each contract. The combined totals for accounts receivable and revenues in excess of billings increased by $11,950,749 from $32,608,773 at June 30, 2017 to $44,559,522 at December 31, 2017. The increase is due to recognition of revenue according to progress of contracts and billing for the amended DFS contract. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to $7,560,298 and $10,133,100, respectively at December 31, 2017. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to $6,880,194 and $10,222,795, respectively at June 30, 2017.

The average days sales outstanding for the six months ended December 31, 2017 and 2016 were 260 and 145 days, respectively, for each period. The days sales outstanding have been calculated by taking into consideration the average combined balances of accounts receivable and revenue in excess of billings.

Net cash used in investing activities was $899,882 for the six months ended December 31, 2017, compared to $1,598,784 for the six months ended December 31, 2016. We had purchases of property and equipment of $543,123 compared to $1,074,316 for the comparable period last fiscal year. For the six months ended December 31, 2017, we invested $500,000 in a short-term convertible note receivable from WRLD3D. For the six months ended December 31, 2017, we invested $50,000 in WRLD3D compared to $705,555 for the six months ended December 31, 2016.

Net cash used in financing activities was $449,164, compared to $629,999 for the six months ended December 31, 2017, and 2016, respectively. The six months ended December 31, 2017 included the cash inflow of $215,311 from the exercising of stock options and warrants compared to $429,452 for the same period last year. During the six months ended December 31, 2017, we purchased 139,275 shares of our common stock from the open market for $601,020 compared to 7,500 shares of common stock for $38,885 for the same period last year. During the six months ended December 31, 2017, we had net payments for bank loans and capital leases of $361,814 compared to $69,998 for the six months ended December 31, 2016. 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 14 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, 2017, we had approximately $10 million of cash, cash equivalents and marketable securities of which approximately $8.46 million is held by our foreign subsidiaries. As of June 30, 2017, we had approximately $14.17 million of cash, cash equivalents and marketable securities of which approximately $11.56 million is held by our foreign subsidiaries. The Tax Act, which was passed on December 22, 2017, imposes a one-time repatriation tax on deemed repatriation of historical earnings of foreign subsidiaries. As of December 31, 2017, the provisional undistributed earnings of foreign subsidiaries were $22.8 million which we anticipate being able to offset fully with net operating loss carry forwards.

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 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 ($405,405) 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 ($4,521,613) and a running finance facility of Rupees 75 million ($678,217) 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 ($3,165,130) and a running finance facility of Rs. 150 million ($1,356,484) 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 derives revenues from the following sources: (1) software licenses, (2) services, which include implementation and consulting services, and (3) maintenance, which includes post contract support.

The Company recognizes revenue from license contracts without major customization when a non-cancelable, non-contingent license agreement has been signed, delivery of the software has occurred, the fee is fixed or determinable, and collectability is probable. Delivery is considered to have occurred upon electronic transfer of the license key that provides immediate availability of the product to the purchaser. Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue the Company reports.

If an arrangement does not qualify for separate accounting of the software license and consulting transactions, then new software license revenue is generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed contract method. Contract accounting is applied to any arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license fees; (2) where services include significant modification or customization of the software; (3) where significant consulting services are provided for in the software license contract without additional charge or are substantially discounted; or (4) where the software license payment is tied to the performance of consulting services.

Revenue from consulting services is recognized as the services are performed for time-and-materials contracts. Revenue from training and development services is recognized as the services are performed.

Revenue from maintenance agreements is recognized ratably over the term of the maintenance agreement, typically one year.

Multiple Element Arrangements

The Company may enter into multiple element revenue arrangements in which a customer may purchase a number of different combinations of software licenses, consulting services, maintenance and support, as well as training and development.

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

INTANGIBLE ASSETS

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

SOFTWARE DEVELOPMENT COSTS

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

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

STOCK-BASED COMPENSATION

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

GOODWILL

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

RECENT ACCOUNTING 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 ineffective.

The material weakness relates to the lack of qualified Internal Audit resources dedicated to documenting and testing legacy accounting systems and Corporate functions.

The Company is in the process of remediating the material weakness, including, but not limited to, by continuing the implementation of a leading cloud-based global ERP system, as approved by the Company's Board in fiscal year 2016, which is already live in certain locations, and is expected to be completed by June 30, 2018. Further, the Company engaged an internal audit consulting firm to advise and assist with the remediation and internal control improvements, including to assist with the expansion and training of the Company's internal audit function, and to augment corporate oversight and internal audit coverage.

Changes in Internal Control over Financial Reporting

Except for progress made in the remediation actions described above, there were no changes in our internal controls over financial reporting during the three months ended December 31, 2017, 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

On April 7, 2017, Conister Bank Limited filed a complaint in the High Court of Justice Chancery Division, as claim no. HC-2017-001045 against our subsidiary, Virtual Lease Services Limited ("VLS"). The complaint alleges that VLS was in willful default of their agreements with Conister Bank Limited by failing to fulfill its obligations under the agreements with Conister. The complaint alleges damages in excess of £200,000 (approximately $270,270). VLS has responded to the complaint and its expenses are currently covered by available insurance. VLS denies all claims and intends to vigorously defend the action.

Item 1A. Risk Factors

None.

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

The repurchases provided in the table below were made through the quarter ended December 31, 2017:

Issuer Purchases of Equity Securities (1)

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may be Purchased Under the Plans or Programs
Jul-17	20,247	$ 4.32	20,247	-
Aug-17	91,533	$ 4.51	111,780	-
Sep-17	-	$ -	111,780	-
Oct-17	27,495	$ 3.65	139,275	-
Nov-17	-	$ -	-	-
Dec-17	-	$ -	-	-
Total	139,275	$ 4.32	139,275	1,000,000

On July 18, 2017, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 1,000,000 of its shares of common stock through December 15, 2017. The shares were to be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion. The repurchase plan expired on its own terms on December 15, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On February 9, 2018, the Board of Directors of the Company amended and restated the bylaws of the Company. The Company has attached a copy of the Amended and Restated Bylaws of NetSol Technologies, Inc. dated February 9, 2018 (the "Bylaws") in its entirety as Exhibit 3.10. The Bylaws were amended and restated to consolidate into one comprehensive document all prior amendments and to reflect prior amendments to the Articles of Incorporation relevant to the Bylaws. This document is further amended as follows:

- To change the Company's name in the Bylaws from NetSol International, Inc. to NetSol Technologies, Inc consistent with the Company's Articles of Incorporation.
- Article II, Section 2 and Section 4, amending to clarify that the minimum and maximum number of board members to 3 and 9, respectively, and to confirm the board's ability to fill board vacancies.
- Article IV, Section 2 amending the date of the annual shareholders meeting to be in line with the Company's current fiscal year end and practices.

Item 6. Exhibits

3.10 Amended and Restated Bylaws of NetSol Technologies, Inc. dated February 9, 2018.
31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO)
31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO)
32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)
32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO)

SIGNATURES

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

NETSOL TECHNOLOGIES, INC.

Date:	February 13, 2018	*/s/ Najeeb U. Ghauri* NAJEEB U. GHAURI Chief Executive Officer
Date:	February 13, 2018	*/s/Roger K. Almond* ROGER K. ALMOND Chief Financial Officer Principal Accounting Officer

AMENDED AND RESTATED BYLAWS

OF

NETSOL TECHNOLOGIES, INC.

A Nevada corporation

Dated February 9, 2018

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OF

NETSOL TECHNOLOGIES, INC.

A Nevada corporation

ARTICLE I
OFFICES

Section 1. PRINCIPAL OFFICE. The principal office for the transaction of business of the Corporation is hereby fixed and located in the City of Calabasas, California. The location may be changed by approval of a majority of the authorized directors, and additional offices may be established and maintained at such other place or places, either within or outside of Nevada, as the Board of Directors may from time to time designate.

Section 2. OTHER OFFICES. Branch or subordinate offices may at any time be established by the Board of Directors at any place or places where the Corporation is qualified to do business.

ARTICLE II
DIRECTORS - MANAGEMENT

Section 1. POWERS, STANDARD OF CARE.

1.1 POWERS: Subject to the provisions of the Nevada Revised Statutes (hereinafter the "Code"), and subject to any limitations in the Articles of Incorporation of the Corporation relating to action required to be approved by the Stockholders, as that term is defined in the Code, or by the outstanding shares, as that term is defined Code, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors. The Board of Directors may delegate the management of the day-to-day operation of the business of the Corporation to a management company or other persons, provided that the business and affairs of the Corporation shall be managed, and all corporate powers shall be exercised, under the ultimate direction of the Board.

1.2 STANDARD OF CARE; LIABILITY:

1.2.1 Each Director shall exercise such powers and otherwise perform such duties, in good faith, in the matters such Director believes to be in the best interests of the Corporation, and with such care, including reasonable inquiry, using ordinary prudence, as a person in a like position would use under similar circumstances.

1.2.2 In performing the duties of a Director, a Director shall be entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, in which case prepared or presented by:

1.3.1 One or more officers or employees of the Corporation whom the Director believes to be reliable and competent in the matters presented,

1.3.2 Counsel, independent accountants or other persons as to which the Director believes to be within such person's professional or expert competence, or

1.3.3 A Committee of the Board upon which the Director does not serve, as to matters within its designated authority, which committee the Director believes to merit confidence, so long as in any such case the Director acts in good faith, after reasonable inquiry when the need therefor is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

Section 2. NUMBER AND QUALIFICATION OF DIRECTORS.

2.1 The authorized number of directors of the Company shall not be less than three (3) and no more than nine (9) until changed by a duly adopted amendment to the Articles of Incorporation or by an amendment to this Section 2 of these Bylaws, or without an amendment to these Bylaws, the number of directors may be fixed or changed by resolution adopted by the vote of the majority of directors in office or by the vote of holders of shares representing a majority of the voting power at any annual meeting, or any special meeting called for such purpose; but no reduction of the number of directors shall have the effect of removing any director prior to the expiration of his/her term.

Section 3. ELECTION AND TERM OF OFFICE OF DIRECTORS.

3.1 Directors shall be elected at each annual meeting of the Stockholders to hold office until the next annual meeting. If any such annual meeting of Stockholders is not held or the Directors are not elected thereat, the Directors may be elected at any special meeting of Stockholders held for that purpose. Each Director, including a Director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

3.2 Except as may otherwise be provided herein, or in the Articles of Incorporation by way of cumulative voting rights, the members of the Board of Directors of this Corporation, who need not be stockholders, shall be elected by a majority of the votes cast at a meeting of stockholders, by the holders of shares of stock present in person or by proxy, entitled to vote in the election.

Section 4. VACANCIES.

4.1 Vacancies on the Board of Directors may be filled by the vote of majority of the Board Members at a duly held meeting at which quorum is present, or by the written consent of the Board Members. Each Director so elected shall hold office until the next annual meeting of the Shareholders and until a successor has been elected and qualified.

4.2 A vacancy or vacancies on the Board of Directors shall be deemed to exist in the event of the death, resignation or removal of any Director, or if the Board of Directors by resolution declares vacant the office of a Director who has been declared of unsound mind by an order of court or convicted of a felony.

4.3 Any Director may resign, effective on giving written notice to the Chairman of the Board, the President, the Secretary, or the Board of Directors, unless the notice specifies a later time for that resignation to become effective.

4.4 No reduction of the authorized number of Directors shall have the effect of removing any Director before that Director's term of office expires.

Section 5. REMOVAL OF DIRECTORS.

5.1 The entire Board of Directors, or any individual Director, may be removed from office as provided by Section 78.335 of the Code at any special meeting of stockholders called for such purpose by vote of the holders of two- thirds of the voting power entitling them to elect directors in place of those to be removed, subject to the provisions of Section 5.2.

5.2 No Director may be removed (unless the entire Board is removed) when the votes cast against removal or not consenting in writing to such removal would be sufficient to elect such Director if voted cumulatively at an election at which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote, were voted) and the entire number of Directors authorized at the time of the Directors most recent election were then being elected; and when by the provisions of the Articles of Incorporation the holders of the shares of any class or series voting as a class or series are entitled to elect one or more Directors, any Director so elected may be removed only by the applicable vote of the holders of the shares of that class or series.

Section 6. PLACE OF MEETINGS. Regular meetings of the Board of Directors shall be held at any place within or outside the state that has been designated from time to time by resolution of the Board. In the absence of such resolution, regular meetings shall be held at the principal executive office of the Corporation. Special meetings of the Board shall be held at any place within or outside the state that has been designated in the notice of the meeting, or, if not stated in the notice or there is no notice, at the principal executive office of the Corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment pursuant to Section 78.320 of the Code, so long as all Directors participating in such meeting can hear one another, and all such Directors shall be deemed to have been present in person at such meeting.

Section 7. ANNUAL MEETINGS. Immediately following each annual meeting of Stockholders, the Board of Directors shall hold a regular meeting for the purpose of organization, the election of officers and the transaction of other business. Notice of this meeting shall not be required. Minutes of any meeting of the Board, or any committee thereof, shall be maintained as required by the Code by the Secretary or other officer designated for that purpose.

Section 8. OTHER REGULAR MEETINGS.

8.1 Other regular meetings of the Board of Directors shall be held without call at such time as shall from time to time be fixed by the Board of Directors. Such regular meetings may be held without notice, provided the time and place of such meetings has been fixed by the Board of Directors, and further provided the notice of any change in the time of such meeting shall be given to all the Directors. Notice of a change in the determination of the time shall be given to each Director in the same manner as notice for such special meetings of the Board of Directors.

8.2 If said day falls upon a holiday, such meetings shall be held on the next succeeding day thereafter.

Section 9. SPECIAL MEETINGS/NOTICES.

9.1 Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairman of the Board or the President or any Vice President or the Secretary or any two Directors.

9.2 Notice of the time and place for special meetings shall be delivered personally or by telephone to each Director or sent by first class mail or telegram, charges prepaid, addressed to each Director at his or her address as it is shown in the records of the Corporation. In case such notice is mailed, it shall be deposited in the United States mail at least four days prior to the time of holding the meeting. In case such notice is delivered personally, or by telephone or telegram, it shall be delivered personally or be telephone or to the telegram company at least 48 hours prior to the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated to either the Director or to a person at the office of the Director who the person giving the notice has reason to believe will promptly communicate same to the Director. The notice need not specify the purpose of the meeting, nor the place, if the meeting is to be held at the principal executive office of the Corporation.

Section 10. WAIVER OF NOTICE.

10.1 The transactions of any meeting of the Board of Directors, however called, noticed, or wherever held, shall be as valid as though had at a meeting duly held after the regular call and notice if a quorum is present and if, either before or after the meeting, each of the Directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. Waivers of notice or consent need not specify the purposes of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made part of the minutes of the meeting.

10.2 Notice of a meeting shall also be deemed given to any Director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director.

Section 11. QUORUMS. A majority of the authorized number of Directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 12 of this Article II. Every act or decision done or made by a majority of the Directors present at a meeting duly held at which a quorum was present shall be regarded as the act of the Board of Directors, unless a greater number is required by law or the Articles of Incorporation. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

Section 12. ADJOURNMENT. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 13. NOTICE OF ADJOURNMENT. Notice of the time and place of the holding of an adjourned meeting need not be given, unless the meeting is adjourned for more than 24 hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting to the Directors who were not present at the time of the adjournment.

Section 14. SOLE DIRECTOR PROVIDED BY ARTICLES OR BYLAWS. In the event only one Director is required by the Bylaws or the Articles of Incorporation, then any reference herein to notices, waivers, consents, meetings or other actions by a majority or quorum of the Board of Directors shall be deemed or referred as such notice, waiver, etc., by the sole Director, who shall have all rights and duties and shall be entitled to exercise all of the powers and shall assume all the responsibilities otherwise herein described, as given to the Board of Directors.

Section 15. DIRECTORS ACTION BY UNANIMOUS WRITTEN CONSENT. Pursuant to Section 78.315 of the Code, any action required or permitted to be taken by the Board of Directors may be taken without a meeting and with the same force and effect as if taken by a unanimous vote of Directors, if authorized by a writing signed individually or collectively by all members of the Board of Directors. Such consent shall be filed with the regular minutes of the Board of Directors.

Section 16. COMPENSATION OF DIRECTORS. Directors, and members as such, shall not receive any stated salary for their services, but by resolution of the Board of Directors, a fixed sum and expense of attendance, if any, may be allowed for attendance at each regular and special meeting of the Board of Directors; provided, however, that nothing contained herein shall be construed to preclude any Director from serving the Corporation in any other capacity as an officer, employee or otherwise receiving compensation for such services.

Section 17. COMMITTEES. Committees of the Board of Directors may be appointed by resolution passed by a majority of the whole Board. Committees shall be composed of two or more members of the Board of Directors. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Committees shall have such powers as those held by the Board of Directors as may be expressly delegated to it by resolution of the Board of Directors, except those powers expressly made non-delegable by the Code.

Section 18. MEETINGS AND ACTION OF COMMITTEES. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article II, Sections 6, 8, 9, 10, 11, 12, 13 and 15, with such changes in the context of those Sections as are necessary to substitute the committee and its members for the Board of Directors and its members, except that the time of the regular meetings of the committees may be determined by resolution of the Board of Directors as well as the committee, and special meetings of committees may also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

Section 19. ADVISORY DIRECTORS. The Board of Directors from time to time may elect one or more persons to be Advisory Directors, who shall not by such appointment be members of the Board of Directors. Advisory Directors shall be available from time to time to perform special assignments specified by the President, to attend meetings of the Board of Directors upon invitation and to furnish consultation to the Board of Directors. The period during which the title shall be held may be prescribed by the Board of Directors. If no period is prescribed, the title shall be held at the pleasure of the Board of Directors.

ARTICLE III
OFFICERS

Section 1. OFFICERS. The principal officers of the Corporation shall be a President, a Secretary, and a Treasurer. The Corporation may also have, at the discretion of the Board of Directors, a Chairman of the Board, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article III. Any number of offices may be held by the same person.

Section 2. ELECTION OF OFFICERS. The principal officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article, shall be chosen by the Board of Directors, and each shall serve at the pleasure of the Board of Directors, subject to the rights, if any, of an officer under any contract of employment.

Section 3. SUBORDINATE OFFICERS, ETC. The Board of Directors may appoint such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws or as the Board of Directors may from time to time determine.

Section 4. REMOVAL AND RESIGNATION OF OFFICERS.

4.1 Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by a majority of the Directors at that time in office, at any regular or special meeting of the Board of Directors, or, except in the case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors.

4.2 Any officer may resign at any time by giving written notice to the Board of Directors. Any resignation shall take effect on the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 5. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in the Bylaws for regular appointments to that office.

Section 6. CHAIRMAN OF THE BOARD.

6.1 The Chairman of the Board, if such an officer be elected, shall, if present, preside at the meetings of the Board of Directors and exercise and perform such other powers and duties as may, from time to time, be assigned by the Board of Directors or prescribed by the Bylaws. If there is no President, the Chairman of the Board shall, in addition, be the Chief Executive Officer of the Corporation and shall have the powers and duties prescribed in Section 7 of this Article III.

Section 7. PRESIDENT. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, if there is such an officer, the President shall be the Chief Executive Officer of the Corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the Corporation. The President shall preside at all meetings of the Stockholders and, in the absence of the Chairman of the Board, or if there be none, at all meetings of the Board of Directors. The President shall have the general powers and duties of management usually vested in the office of President of a corporation, shall be ex officio a member of all the standing committees, including the Executive Committee, if any, and shall have such other powers and duties as may be prescribed by the Board of Directors or the Bylaws.

Section 8. VICE PRESIDENT. In the absence or disability of the President, the Vice Presidents, if any, in order of their rank as fixed by the Board of Directors, or if not ranked, the Vice President designated by the Board of Directors, shall perform all the duties of the President, and when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them, respectively, by the Board of Directors or the Bylaws, the President, or the Chairman of the Board.

Section 9. SECRETARY.

9.1 The Secretary shall keep, or cause to be kept, a book of minutes of all meetings of the Board of Directors and Stockholders at the principal office of the Corporation or such other place as the Board of Directors may order. The minutes shall include the time and place of holding the meeting, whether regular or special, and if a special meeting, how authorized, the notice thereof given, and the names of those present at Directors' and committee meetings, the number of shares present or represented at Stockholders' meetings and the proceedings thereof.

9.2 The Secretary shall keep, or cause to be kept, at the principal office of the Corporation or at the office of the Corporation's transfer agent, a share register, or duplicate share register, showing the names of the Stockholders and their addresses; the number and classes or shares held by each; the number and date of certificates issued for the same; and the number and date of cancellation of every certificate surrendered for cancellation.

9.3 The Secretary shall give, or cause to be given, notice of all the meetings of the Stockholders and of the Board of Directors required by the Bylaws or by law to be given. The Secretary shall keep the seal of the Corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by the Bylaws.

Section 10. TREASURER.

10.1 The Treasurer shall keep and maintain, or cause to be kept and maintained, in accordance with generally accepted accounting principles, adequate and correct accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, earnings (or surplus) and shares issued. The books of account shall, at all reasonable times, be open to inspection by any Director.

10.2 The Treasurer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the President and Directors, whenever they request it, an account of all of the transactions of the Treasurer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws.

ARTICLE IV
STOCKHOLDERS' MEETINGS

Section 1. PLACE OF MEETINGS. Meetings of the Stockholders shall be held at any place within or outside the state of Nevada designated by the Board of Directors. In the absence of any such designation, Stockholders' meetings shall be held at the principal executive office of the Corporation.

Section 2. ANNUAL MEETING.

2.1 The annual meeting of the shareholders shall be held, each year within ninety (90) days of the Company's fiscal year end; or, one year from the prior year's actual meeting date, whichever is later.

2.2 If this date is a legal holiday, then the meeting shall be held on the next succeeding business day, at the same time. At the annual meeting, the Shareholders shall elect a Board of Directors, consider reports of the affairs of the Company and transact such other business as may be properly brought before the meeting.

Section 3. SPECIAL MEETINGS. Unless otherwise required by law or by the Articles of Incorporation of the Corporation (as amended from time to time and including any certificates of designation with respect to any preferred stock of the Corporation, the "Articles of Incorporation"), special meetings of Stockholders, for any purpose or purposes, may be called by the Board of Directors pursuant to a resolution stating the purpose or purposes thereof or by the Chairman, if there be one. Any power of Stockholders of the Corporation to call a special meeting is specifically denied. Notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten (10) or more than sixty (60) days before the date of the meeting to each Stockholder entitled to vote at such meeting. Only such business shall be conducted at a special meeting as shall be specified in the notice of meeting (or any supplement thereto). Unless otherwise provided in the Articles of Incorporation, any action required or permitted to be taken by the Stockholders of the Corporation may be effected only at a duly called annual or special meeting of such Stockholders and may not be effected by written consent by such Stockholders in lieu of such a meeting.

Article IV, Section 4 of the Bylaws is hereby amended in part, to read as follows:

Section 4. NOTICE OF MEETINGS - REPORTS.

4.1 Notice of any Stockholders meetings, annual or special, shall be given in writing not less than 10 days nor more than 60 days before the date of the meeting to Stockholders entitled to vote thereat by the Secretary or the Assistant Secretary, or if there be no such officer, or in the case of said Secretary or Assistant Secretary's neglect or refusal, by any Director or Stockholder.

4.2 Such notices or any reports shall be given personally or by mail or other means of written communication as provided in the Code and shall be sent to the Stockholder's address appearing on the books of the Corporation, or supplied by the Stockholder to the Corporation for the purpose of notice, and in the absence thereof, as provided in the Code by posting notice at a place where the principal executive office of the Corporation is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located.

4.3 Notice of any meeting of Stockholders shall specify the place, the day and the hour of meeting, and (i) in case of a special meeting, the general nature of the business to be transacted and that no other business may be transacted, or (ii) in the case of an annual meeting, those matters which the Board of Directors, at the date of mailing of notice, intends to present for action by the Stockholders. At any meetings where Directors are elected, notice shall include the names of the nominees, if any, intended at the date of notice to be presented for election.

4.4 Notice shall be deemed given at the time it is delivered personally or deposited in the mail or sent by other means of written communication. The officer giving such notice or report shall prepare and file in the minute book of the Corporation an affidavit or declaration thereof.

4.5 If action is proposed to be taken at any meeting for approval of (i) contracts or transactions in which a Director has a direct or indirect financial interest, pursuant to the Code, (ii) an amendment to the Articles of Incorporation, pursuant to the Code, (iii) a reorganization of the Corporation, pursuant to the Code, (iv) dissolution of the Corporation, pursuant to the Code, or (v) a distribution to preferred Stockholders, pursuant to the Code, the notice shall also state the general nature of such proposal.

4.6 Business at Annual Meetings.

4.6.1 No business may be transacted at an annual meeting of Stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any Stockholder of the Corporation (i) who is a Stockholder of record on the date of the giving of the notice provided for in this Section 4 and on the record date for the determination of Stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 4.

4.6.2 In addition to any other applicable requirements for business to be properly brought before an annual meeting by a Stockholder of the Corporation, such Stockholder must have given timely notice thereof in proper written form to the Secretary.

4.6.3 To be timely, a Stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred and twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of Stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the Stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, which ever first occurs.

4.6.4 To be in proper written form, a Stockholder's notice to the Secretary must set forth as to each matter such Stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such Stockholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such Stockholder, (iv) a description of all arrangements or understandings between such Stockholder and any other person or persons (including their names) in connection with the proposal of such business by such Stockholder and any material interest of such Stockholder in such business and (v) a representation that such Stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

4.6.5 No business shall be conducted at the annual meeting of Stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 4, provided, however, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 4 shall be deemed to preclude discussion by any Stockholder of any such business. If the chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

4.6.6 The Stockholders' right to cumulative voting is expressly denied.

Section 5. <u>QUORUM.</u>

5.1 The holders of a majority of the shares entitled to vote at a Stockholders' meeting, present in person, or represented by proxy, shall constitute a quorum at all meetings of the Stockholders for the transaction of business except as otherwise provided by the Code or by these Bylaws.

5.2 The Stockholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by a majority of the shares required to constitute a quorum.

Section 6. ADJOURNED MEETING AND NOTICE THEREOF.

6.1 Any Stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at such meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at such meeting.

6.2 When any meeting of Stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than 45 days from the date set for the original meeting, in which case the Board of Directors shall set a new record date. Notice of any adjourned meeting shall be given to each Stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Section 4 of this Article. At any adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting.

Section 7. WAIVER OR CONSENT BY ABSENT STOCKHOLDERS.

7.1 The transactions of any meeting of Stockholders, either annual or special, however called and noticed, shall be valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the Stockholders entitled to vote, not present in person or by proxy, sign a written waiver of notice, or a consent to the holding of such meeting or an approval of the minutes thereof.

7.2 The waiver of notice or consent need not specify either the business to be transacted or the purpose of any regular or special meeting of Stockholders shall state the general nature of such proposal. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

7.3 Attendance of a person at a meeting shall also constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice is such objection.

ARTICLE V
AMENDMENTS TO BYLAWS

Section 1. AMENDMENT BY STOCKHOLDERS. All Bylaws of the Corporation shall be subject to alteration or repeal, and new Bylaws may be made by the affirmative vote of stockholders holding of record in the aggregate at least a majority of the outstanding shares of stock entitled to vote in the election of directors at any annual or special meeting of stockholders, provided that the notice or waiver of notice of such meeting shall have summarized or set forth in full therein, the proposed amendment.

Section 2. AMENDMENT BY DIRECTORS. The Board of Directors shall have power to make, adopt, alter, amend and repeal, from time to time, Bylaws of the Corporation, provided, however, that the stockholders entitled to vote with respect thereto as in this Article V above-provided may alter, amend or repeal Bylaws made by the Board of Directors, except that the Board of Directors shall have no power to change the quorum for meetings of stockholders or of the Board of Directors or to change any provisions of the Bylaws with respect to the removal of directors of the filling of vacancies in the Board resulting from the removal by the stockholders. In any bylaw regulating an impending election of directors is adopted, amended or repealed by the Board of Directors, there shall be set forth in the notice of the next meeting of stockholders for the election of directors, the Bylaws so adopted, amended or repealed, together with a concise statement of the changes made.

Section 3. RECORD OF AMENDMENTS. Whenever an amendment or new Bylaw is adopted, it shall be copies in the corporate book of Bylaws with the original Bylaws, in the appropriate place. If any Bylaw is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted or written assent was filed shall be stated in the corporate book of Bylaws.

ARTICLE VI
SHARES OF STOCK

Section 1. CERTIFICATE OF STOCK.

1.1 The certificates representing shares of the Corporation's stock shall be in such form as shall be adopted by the Board of Directors, and shall be numbered and registered in the order issued. The certificates shall bear the following: the Corporate Seal, the holder's name, the number of shares of stock and the signatures of: (1) the Chairman of the Board, the President or a Vice President and (2) the Secretary, Treasurer, any Assistant Secretary or Assistant Treasurer.

1.2 No certificate representing shares of stock shall be issued until the full amount of consideration therefore has been paid, except as otherwise permitted by law.

1.3 To the extent permitted by law, the Board of Directors may authorize the issuance of certificates for fractions of a share of stock which shall entitle the holder to exercise voting rights, receive dividends and participate in liquidating distributions, in proportion to the fractional holdings; or it may authorize the payment in cash of the fair value of fractions of a share of stock as of the time when those entitled to receive such fractions are determined; or its may authorize the issuance, subject to such conditions as may be permitted by law, of scrip in registered or bearer form over the signature of an officer or agent of the corporation, exchangeable as therein provided for full shares of stock, but such scrip shall not entitle the holder to any rights of a stockholder, except as therein provided.

Section 2. LOST OR DESTROYED CERTIFICATES. The holder of any certificate representing shares of stock of the Corporation shall immediately notify the Corporation of any loss or destruction of the certificate representing the same. The Corporation may issue a new certificate in the place of any certificate theretofore issued by it, alleged to have been lost or destroyed. On production of such evidence of loss or destruction as the Board of Directors in its discretion may require, the Board of Directors may, in its discretion, require the owner of the lost or destroyed certificate, or his legal representatives, to give the Corporation a bond in such sum as the Board may direct, and with such surety or sureties as may be satisfactory to the Board, to indemnify the Corporation against any claims, loss, liability or damage it may suffer on account of the issuance of the new certificate. A new certificate may be issued without requiring any such evidence or bond when, in the judgment of the Board of directors, it is proper to do so.

Section 3. TRANSFER OF SHARES.

3.1 Transfer of shares of stock of the Corporation shall be made on the stock ledger of the Corporation only by the holder of record thereof, in person or by his duly authorized attorney, upon surrender for cancellation of the certificate or certificates representing such shares of stock with an assignment or power of transfer endorsed thereon or delivered therewith, duly executed, with such proof of the authenticity of the signature and of authority to transfer and of payment of taxes as the Corporation or its agents may require.

3.2 The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the absolute owner thereof for all purposes and , accordingly, shall not be bound to recognize any legal, equitable or other claim to, or interest in, such share or shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law.

Section 4. RECORD DATE. In lieu of closing the stock ledger of the Corporation, the Board of Directors may fix, in advance, a date not exceeding sixty (60) days, nor less than ten (10) days, as the record date for the determination of stockholders entitled to receive notice of, or to vote at, any meeting of stockholders, or to consent to any proposal without a meeting, or for the purpose of determining stockholders entitled to receive payment of any dividends or allotment of any rights, or for the purpose of any other action. If no record date is fixed, the record date for the determination of stockholders entitled to notice of, or to vote at, a meeting of stockholders shall be at the close of business on the day next preceding the day on which the notice is given, or, if no notice is given, the day preceding the day on which the meeting is held. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the resolution of the directors relating thereto is adopted. When a determination of stockholders of record entitled to notice of, or to vote at, any meeting of stockholders has been made, as provided for herein, such determination shall apply to any adjournment thereof, unless the directors fix a new record date for the adjourned meeting.

ARTICLE VII
DIVIDENDS

Section 1. SUBJECT TO APPLICABLE LAW, DIVIDENDS MAY BE DECLARED AND PAID OUT OF ANY FUNDS AVAILABLE THEREFOR, AS OFTEN, IN SUCH AMOUNT, AND AT SUCH TIME OR TIMES AS THE BOARD OF DIRECTORS MAY DETERMINE.

ARTICLE VIII
FISCAL YEAR

Section 1. THE FISCAL YEAR OF THE CORPORATION SHALL BE JUNE 30, AND MAY BE CHANGED BY THE BOARD OF DIRECTORS FROM TIME TO TIME SUBJECT TO APPLICABLE LAW.

ARTICLE IX
CORPORATE SEAL

Section 1. THE CORPORATE SEAL SHALL BE CIRCULAR IN FORM, AND SHALL HAVE INSCRIBED THEREON THE NAME OF THE CORPORATION, THE DATE OF ITS INCORPORATION, AND THE WORD "NEVADA" TO INDICATE THE CORPORATION WAS INCORPORATED PURSUANT TO THE LAWS OF THE STATE OF NEVADA.

ARTICLE X
INDEMNIFICATION

Section 1. POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS OTHER THAN THOSE BY OR IN THE RIGHT OF THE CORPORATION. Subject to Section 10.3 of this Article, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

Section 2. POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS BY OR IN THE RIGHT OF THE CORPORATION. Subject to Section 10.3 of this Article, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such applicable court shall deem proper.

Section 3. AUTHORIZATION OF INDEMNIFICATION. Any indemnification under this Article X (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 10.1 or Section 10.2, as the case may be. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) by a committee of such directors designated by a majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (iv) by the affirmative vote of Stockholders holding of record in the aggregate at least a majority of the outstanding shares of stock entitled to vote in the election of directors at any annual or special meeting of Stockholders. Such determination shall be made, with respect to former directors and officers, by any person or persons having the authority to act on the matter on behalf of the Corporation. To the extent, however, that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith, without the necessity of authorization in the specific case.

Section 4. GOOD FAITH DEFINED. For purposes of any determination under Section 10.3, a person shall be deemed to have acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe such person's conduct was unlawful, if such person's action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to such person by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 10.4 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent. The provisions of this Section 10.4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Section 10.1 or 10.2, as the case may be.

Section 5. INDEMNIFICATION BY A COURT. Notwithstanding any contrary determination in the specific case under Section 10.3, and notwithstanding the absence of any determination thereunder, any director or officer may apply to the courts of the State of Nevada for indemnification to the extent otherwise permissible under Sections 10.1 and 10.2. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standards of conduct set forth in Section 10.1 or 10.2, as the case may be. Neither a contrary determination in the specific case under Section 10.3 nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 10.5 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 6. EXPENSES PAYABLE IN ADVANCE. Expenses incurred by a director or officer in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article X.

Section 7. NONEXCLUSIVE INDEMNIFICATION AND ADVANCEMENT OF EXPENSES. The indemnification and advancement of expenses provided by or granted pursuant to this Article X shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Articles of Incorporation, the Bylaws, agreement, vote of Stockholders or disinterested directors, applicable law or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 10.1 and 10.2 shall be made to the fullest extent permitted by law. The provisions of this Article X shall not be deemed to preclude the indemnification of any person who is not specified in Sections 10.1 or 10.2 but whom the Corporation has the power or obligation to indemnify under the provisions of the Code or otherwise.

Section 8. INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article X.

Section 9. CERTAIN DEFINITIONS. For purposes of this Article X only, references to the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article X with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article X, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article X.

Section 10. SURVIVAL OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article X shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 11. LIMITATION ON INDEMNIFICATION. Notwithstanding anything contained in this Article X to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 10.5), the Corporation shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors.

Section 12. INDEMNIFICATION OF EMPLOYEES AND AGENTS. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article X to directors and officers of the Corporation.

ARTICLE XI
MISCELLANEOUS

Section 1. STOCKHOLDERS' AGREEMENTS . Notwithstanding anything contained in this Article XI to the contrary, in the event the Corporation elects to become a close corporation, an agreement between two or more Stockholders thereof, if in writing and signed by the parties thereto, may provide that in exercising any voting rights, the shares held by them shall be voted as provided therein, and may otherwise modify the provisions contained in Article IV, herein as to Stockholders' meetings and actions.

Section 2. SUBSIDIARY CORPORATIONS. Shares of the Corporation owned by a subsidiary shall not be entitled to vote on any matter. For the purpose of this Section, a subsidiary of the Corporation is defined as another corporation of which shares thereof possessing more than 25% of the voting power are owned directly or indirectly through one or more other corporations of which the Corporation owns, directly or indirectly, more than 50% of the voting power.

Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Najeeb Ghauri, certify that:

(1) I have reviewed this annual report on Form 10-Q for the quarter ended December 31, 2017, of NetSol Technologies, Inc., ("Registrant").

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2018

/s/Najeeb Ghauri

Najeeb Ghauri,
Chief Executive Officer
Principal executive officer

Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Roger K. Almond, certify that:

(1) I have reviewed this annual report on Form 10-Q for the quarter ended December 31, 2017, of NetSol Technologies, Inc., (“Registrant”).

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any changes in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and;

(5) The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 13, 2018

/s/ Roger K. Almond
Roger K. Almond
Chief Financial Officer
Principal Accounting Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of NetSol Technologies, Inc. on Form 10-Q for the period ending December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Najeeb Ghauri, Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and,

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 13, 2018

/s/ Najeeb Ghauri

Najeeb Ghauri,
Chief Executive Officer
Principal Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of NetSol Technologies, Inc. on Form 10-Q for the period ending December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Roger K. Almond, Chief Financial Officer, and Principal Accounting Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and,

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 13, 2018

/s/ Roger K. Almond

Roger K. Almond
Chief Financial Officer
Principal Accounting Officer