

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2020

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)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
Common Stock, \$0.01 par value per share	NTWK	NASDAQ

Indicate by check mark whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer
Non-accelerated Filer

Accelerated Filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The issuer had 12,147,458 shares issued and 11,360,519 outstanding of its \$.01 par value Common Stock and no Preferred Stock outstanding as of February 9, 2021.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

	As of December 31, 2020	As of June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 32,003,647	\$ 20,166,830
Accounts receivable, net of allowance of \$308,236 and \$435,611	5,213,604	10,131,752
Accounts receivable - related party, net of allowance of \$1,373,099 and \$90,594	-	1,282,505
Revenues in excess of billings, net of allowance of \$153,650 and \$188,914	13,290,010	17,198,281
Revenues in excess of billings - related party, net of allowance of \$8,163 and \$0	-	8,163
Other current assets, net of allowance of \$1,243,633 and \$0	2,395,985	3,108,180
Total current assets	52,903,246	51,895,711
Revenues in excess of billings, net - long term	356,059	1,300,289
Convertible note receivable - related party, net of allowance of \$4,250,000 and \$0	-	4,250,000
Property and equipment, net	12,209,500	11,329,631
Right of use of assets - operating leases	1,937,907	2,360,129
Long term investment	3,734,907	2,387,692
Other assets	47,190	41,992
Intangible assets, net	4,753,543	5,391,077
Goodwill	9,516,568	9,516,568
Total assets	\$ 85,458,920	\$ 88,473,089
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,327,192	\$ 5,680,837
Current portion of loans and obligations under finance leases	10,383,572	9,139,561
Current portion of operating lease obligations	1,169,960	1,111,912
Unearned revenues	3,753,781	4,095,472
Common stock to be issued	88,324	88,324
Total current liabilities	21,722,829	20,116,106
Loans and obligations under finance leases; less current maturities	1,554,317	1,539,975
Operating lease obligations; less current maturities	962,724	1,339,965
Total liabilities	24,239,870	22,996,046
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 500,000 shares authorized;	-	-
Common stock, \$.01 par value; 14,500,000 shares authorized; 12,147,458 shares issued and 11,452,959 outstanding as of December 31, 2020 and 12,122,149 shares issued and 11,874,646 outstanding as of June 30, 2020	121,476	121,222
Additional paid-in-capital	128,823,181	128,677,754
Treasury stock (at cost, 694,499 shares and 247,503 shares as of December 31, 2020 and June 30, 2020, respectively)	(2,848,640)	(1,455,969)
Accumulated deficit	(40,104,089)	(34,269,817)
Other comprehensive loss	(32,060,151)	(34,085,047)
Total NetSol stockholders' equity	53,931,777	58,988,143
Non-controlling interest	7,287,273	6,488,900
Total stockholders' equity	61,219,050	65,477,043
Total liabilities and stockholders' equity	\$ 85,458,920	\$ 88,473,089

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,	
	2020	2019	2020	2019
Net Revenues:				
License fees	\$ 2,586,504	\$ 176,706	\$ 2,589,979	\$ 2,640,922
Subscription and support	5,724,802	5,104,736	10,896,665	9,711,112
Services	4,810,154	10,351,153	12,282,194	16,770,044
Services - related party	-	57,424	-	140,357
Total net revenues	<u>13,121,460</u>	<u>15,690,019</u>	<u>25,768,838</u>	<u>29,262,435</u>
Cost of revenues:				
Salaries and consultants	5,294,662	4,625,872	9,821,311	9,080,836
Travel	159,174	1,572,923	262,926	2,915,558
Depreciation and amortization	713,749	734,352	1,420,998	1,454,017
Other	911,566	954,912	1,839,719	1,899,436
Total cost of revenues	<u>7,079,151</u>	<u>7,888,059</u>	<u>13,344,954</u>	<u>15,349,847</u>
Gross profit	<u>6,042,309</u>	<u>7,801,960</u>	<u>12,423,884</u>	<u>13,912,588</u>
Operating expenses:				
Selling and marketing	1,558,027	1,858,096	3,167,631	3,601,964
Depreciation and amortization	221,572	215,479	443,362	417,866
General and administrative	4,065,788	4,568,790	7,493,424	8,487,403
Research and development cost	110,419	454,605	196,408	1,127,575
Total operating expenses	<u>5,955,806</u>	<u>7,096,970</u>	<u>11,300,825</u>	<u>13,634,808</u>
Income from operations	86,503	704,990	1,123,059	277,780
Other income and (expenses)				
Gain (loss) on sale of assets	(52,531)	528	(74,273)	239
Interest expense	(94,241)	(88,006)	(197,568)	(151,669)
Interest income	210,854	435,682	411,675	834,911
Gain (loss) on foreign currency exchange transactions	13,981	61,061	310,022	(1,699,129)
Share of net loss from equity investment	(43,685)	(164,796)	(151,535)	(354,020)
Other income	45,365	207,987	132,637	226,313
Total other income (expenses)	<u>79,743</u>	<u>452,456</u>	<u>430,958</u>	<u>(1,143,355)</u>
Net income (loss) before income taxes	<u>166,246</u>	<u>1,157,446</u>	<u>1,554,017</u>	<u>(865,575)</u>
Income tax provision	<u>(245,434)</u>	<u>(610,510)</u>	<u>(509,728)</u>	<u>(848,748)</u>
Net income (loss)	<u>(79,188)</u>	<u>546,936</u>	<u>1,044,289</u>	<u>(1,714,323)</u>
Non-controlling interest	<u>(162,916)</u>	<u>39,039</u>	<u>(568,839)</u>	<u>472,351</u>
Net income (loss) attributable to NetSol	<u>\$ (242,104)</u>	<u>\$ 585,975</u>	<u>\$ 475,450</u>	<u>\$ (1,241,972)</u>
Net income (loss) per share:				
Net income (loss) per common share				
Basic	\$ (0.02)	\$ 0.05	\$ 0.04	\$ (0.11)
Diluted	\$ (0.02)	\$ 0.05	\$ 0.04	\$ (0.11)
Weighted average number of shares outstanding				
Basic	<u>11,580,030</u>	<u>11,724,606</u>	<u>11,683,631</u>	<u>11,694,423</u>
Diluted	<u>11,580,030</u>	<u>11,724,606</u>	<u>11,683,631</u>	<u>11,694,423</u>

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,	
	2020	2019	2020	2019
Net income (loss)	\$ (242,104)	\$ 585,975	\$ 475,450	\$ (1,241,972)
Other comprehensive income (loss):				
Translation adjustment	1,633,906	2,009,060	2,728,630	3,496,761
Translation adjustment attributable to non-controlling interest	(483,826)	(244,031)	(703,734)	(828,387)
Net translation adjustment	1,150,080	1,765,029	2,024,896	2,668,374
Comprehensive income (loss) attributable to NetSol	<u>\$ 907,976</u>	<u>\$ 2,351,004</u>	<u>\$ 2,500,346</u>	<u>\$ 1,426,402</u>

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

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

A statement of the changes in equity for the three months ended December 31, 2020 is provided below:

	Common Stock		Additional Paid-in Capital	Treasury Shares	Accumulated Deficit	Other Comprehensive Loss	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
Balance at September 30, 2020	12,137,045	\$ 121,371	\$ 128,764,618	\$ (1,920,645)	\$ (39,861,985)	\$ (33,210,231)	\$ 6,640,531	\$ 60,533,659
Common stock issued for:								
Services	10,413	105	58,563	-	-	-	-	58,668
Purchase of treasury shares	-	-	-	(927,995)	-	-	-	(927,995)
Foreign currency translation adjustment	-	-	-	-	-	1,150,080	483,826	1,633,906
Net income (loss) for the period	-	-	-	-	(242,104)	-	162,916	(79,188)
Balance at December 31, 2020	<u>12,147,458</u>	<u>\$ 121,476</u>	<u>\$ 128,823,181</u>	<u>\$ (2,848,640)</u>	<u>\$ (40,104,089)</u>	<u>\$ (32,060,151)</u>	<u>\$ 7,287,273</u>	<u>\$ 61,219,050</u>

A statement of the changes in equity for the three months ended September 30, 2020 is provided below:

	Common Stock		Additional Paid-in Capital	Treasury Shares	Accumulated Deficit	Other Comprehensive Loss	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
Balance at June 30, 2020	12,122,149	\$ 121,222	\$ 128,677,754	\$ (1,455,969)	\$ (34,269,817)	\$ (34,085,047)	\$ 6,488,900	\$ 65,477,043
Cumulative effect adjustment (1)	-	-	-	-	(6,309,722)	-	(474,578)	(6,784,300)
Subsidiary common stock issued for:								
-Services	-	-	-	-	-	-	378	378
Common stock issued for:								
Services	14,896	149	86,864	-	-	-	-	87,013
Purchase of treasury shares	-	-	-	(464,676)	-	-	-	(464,676)
Foreign currency translation adjustment	-	-	-	-	-	874,816	219,908	1,094,724
Net income for the period	-	-	-	-	717,554	-	405,923	1,123,477
Balance at September 30, 2020	<u>12,137,045</u>	<u>\$ 121,371</u>	<u>\$ 128,764,618</u>	<u>\$ (1,920,645)</u>	<u>\$ (39,861,985)</u>	<u>\$ (33,210,231)</u>	<u>\$ 6,640,531</u>	<u>\$ 60,533,659</u>

(1) Cumulative effect adjustment relates to the adoption of Accounting Standard Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Refer to Note 2 – Accounting Policies for more information.

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

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

A statement of the changes in equity for the three months ended December 31, 2019 is provided below:

	Common Stock		Additional Paid-in Capital	Treasury Shares	Accumulated Deficit	Other Comprehensive Loss	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
Balance at September 30, 2019	11,972,109	\$ 119,721	\$ 128,052,079	\$ (1,455,969)	\$ (37,034,845)	\$ (32,221,661)	\$ 8,605,749	\$ 66,065,074
Common stock issued for:								
Services	28,457	285	145,510	-	-	-	-	145,795
Dividend to non-controlling interest	-	-	-	-	-	-	(1,920,618)	(1,920,618)
Foreign currency translation adjustment	-	-	-	-	-	1,765,029	244,031	2,009,060
Net income	-	-	-	-	585,975	-	(39,039)	546,936
Balance at December 31, 2019	<u>12,000,566</u>	<u>\$ 120,006</u>	<u>\$ 128,197,589</u>	<u>\$ (1,455,969)</u>	<u>\$ (36,448,870)</u>	<u>\$ (30,456,632)</u>	<u>\$ 6,890,123</u>	<u>\$ 66,846,247</u>

A statement of the changes in equity for the three months ended September 30, 2019 is provided below:

	Common Stock		Additional Paid-in Capital	Treasury Shares	Accumulated Deficit	Other Comprehensive Loss	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
Balance at June 30, 2019	11,911,742	\$ 119,117	\$ 127,737,999	\$ (1,455,969)	\$ (35,206,898)	\$ (33,125,006)	\$ 8,414,987	\$ 66,484,230
Exercise of subsidiary common stock options	-	-	(28,097)	-	-	-	39,718	11,621
Common stock issued for:								
Services	60,367	604	342,177	-	-	-	-	342,781
Foreign currency translation adjustment	-	-	-	-	-	903,345	584,356	1,487,701
Net loss for the period	-	-	-	-	(1,827,947)	-	(433,312)	(2,261,259)
Balance at September 30, 2019	<u>11,972,109</u>	<u>\$ 119,721</u>	<u>\$ 128,052,079</u>	<u>\$ (1,455,969)</u>	<u>\$ (37,034,845)</u>	<u>\$ (32,221,661)</u>	<u>\$ 8,605,749</u>	<u>\$ 66,065,074</u>

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,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ 1,044,289	\$ (1,714,323)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,864,360	1,871,883
Provision for bad debts	(175,575)	(20,699)
Share of net loss from investment under equity method	151,535	354,020
Loss on sale of assets	74,273	(239)
Stock based compensation	165,164	328,585
Changes in operating assets and liabilities:		
Accounts receivable	5,479,516	4,554,558
Accounts receivable - related party	-	2,229,695
Revenues in excess of billing	4,540,271	(1,088,693)
Revenues in excess of billing - related party	-	14,823
Other current assets	(252,781)	(208,065)
Accounts payable and accrued expenses	313,869	490,875
Unearned revenue	(554,077)	(3,019,493)
Net cash provided by operating activities	12,650,844	3,792,927
Cash flows from investing activities:		
Purchases of property and equipment	(1,249,895)	(785,999)
Sales of property and equipment	123,194	32,524
Convertible note receivable - related party	-	(535,000)
Investment in associates	(93,000)	-
Net cash used in investing activities	(1,219,701)	(1,288,475)
Cash flows from financing activities:		
Proceeds from exercise of subsidiary options	-	11,621
Purchase of treasury stock	(1,392,671)	-
Dividend paid by subsidiary to non-controlling interest	-	(1,920,618)
Proceeds from bank loans	705,338	2,074,341
Payments on finance lease obligations and loans - net	(175,352)	(102,499)
Net cash provided by (used in) financing activities	(862,685)	62,845
Effect of exchange rate changes	1,268,359	2,149,923
Net increase in cash and cash equivalents	11,836,817	4,717,220
Cash and cash equivalents at beginning of the period	20,166,830	17,366,364
Cash and cash equivalents at end of period	\$ 32,003,647	\$ 22,083,584

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,	
	2020	2019
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	\$ 219,412	\$ 149,210
Taxes	\$ 366,695	\$ 805,709
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired under finance lease	\$ 222,391	\$ -
Provided services for investment in Drivemate	\$ 1,300,000	\$ -
Assets recognized under operating lease	\$ -	\$ 3,571,947

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

NETSOL TECHNOLOGIES, INC.
Notes to Condensed Consolidated Financial Statements
December 31, 2020
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2020. 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 consolidated financial statements include the accounts of the Company as follows:

Wholly owned Subsidiaries

NetSol Technologies Americas, Inc. ("NTA")
NetSol Connect (Private), Ltd. ("Connect")
NetSol Technologies Australia Pty Ltd. ("Australia")
NetSol Technologies Europe Limited ("NTE")
NTPK (Thailand) Co. Limited ("NTPK Thailand")
NetSol Technologies (Beijing) Co. Ltd. ("NetSol Beijing")
Ascent Europe Ltd. ("AEL")
Virtual Lease Services Holdings Limited ("VLSH")
Virtual Lease Services Limited ("VLS")
Virtual Lease Services (Ireland) Limited ("VLSIL")

Majority-owned Subsidiaries

NetSol Technologies, Ltd. ("NetSol PK")
NetSol Innovation (Private) Limited ("NetSol Innovation")
NetSol Technologies Thailand Limited ("NetSol Thai")
OTOZ, Inc. ("OTOZ")
OTOZ (Thailand) Limited ("OTOZ Thai")

NETSOL TECHNOLOGIES, INC.
Notes to Condensed Consolidated Financial Statements
December 31, 2020
(Unaudited)

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, 2019		For the Six Months ended December 31, 2019	
	Originally reported	Reclassified	Originally reported	Reclassified
REVENUES				
License fees	\$ 383,963	\$ 176,706	\$ 3,063,108	\$ 2,640,922
Subscription and support	4,965,877	5,104,736	9,357,324	9,711,112
Services	10,282,755	10,351,153	16,701,646	16,770,044
Services - related party	57,424	57,424	140,357	140,357
Total net revenues	<u>\$ 15,690,019</u>	<u>\$ 15,690,019</u>	<u>\$ 29,262,435</u>	<u>\$ 29,262,435</u>

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, assumptions used to determine the net present value of operating lease liabilities, 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 except balances maintained in China are insured for RMB 500,000 (\$76,570) in each bank and in UK for GBP 85,000 (\$116,438) in each bank. The Company maintains two bank accounts in China and six bank accounts in the UK. As of December 31, 2020, and June 30, 2020, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately \$28,954,360 and \$18,210,378, 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.

NETSOL TECHNOLOGIES, INC.
Notes to Condensed Consolidated Financial Statements
December 31, 2020
(Unaudited)

Fair Value of Financial Instruments

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

The three levels of valuation hierarchy are defined as follows:

- Level 1: Valuations consist of unadjusted quoted prices in active markets for identical assets and liabilities and has the highest priority.
- Level 2: Valuations rely on quoted prices in markets that are not active or observable inputs over the full term of the asset or liability.
- Level 3: Valuations are based on prices or third party or internal valuation models that require inputs that are significant to the fair value measurement and are less observable and thus have the lowest priority.

The Company’s financial assets that were measured at fair value on a recurring basis as of December 31, 2020, were as follows:

	Level 1	Level 2	Level 3	Total Assets
Revenues in excess of billings - long term	\$ -	\$ -	\$ 356,059	\$ 356,059
Total	\$ -	\$ -	\$ 356,059	\$ 356,059

The Company’s financial assets that were measured at fair value on a recurring basis as of June 30, 2020, were as follows:

	Level 1	Level 2	Level 3	Total Assets
Revenues in excess of billing - long term	\$ -	\$ -	\$ 1,300,289	\$ 1,300,289
Total	\$ -	\$ -	\$ 1,300,289	\$ 1,300,289

The reconciliation from June 30, 2020 to December 31, 2020 is as follows:

	Revenues in excess of billings - long term	Fair value discount	Total
Balance at June 30, 2020	\$ 1,341,575	\$ (41,286)	\$ 1,300,289
Additions	376,874	(20,815)	356,059
Amortization during the period	-	41,286	41,286
Transfers to short term	(1,341,575)	-	(1,341,575)
Balance at December 31, 2020	\$ 376,874	\$ (20,815)	\$ 356,059

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

Recent Accounting Standards Adopted by the Company:

In January 2017, the Financial Accounting Standards Board (“FASB”) issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods. Early adoption is permitted for interim or annual goodwill impairment test performed on testing dates after January 1, 2017. The Company adopted this standard on July 1, 2020 and the adoption did not have a material effect on our condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 introduced a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables, contract assets and held-to-maturity debt securities, which requires the Company to incorporate considerations of historical information, current information and reasonable and supportable forecasts. ASU 2016-13 also expands disclosure requirements.

The Company adopted the standard on July 1, 2020 using the modified retrospective approach. The adoption of ASU 2016-13 resulted in changes to the Company’s accounting policies for trade and other receivables, contract assets and convertible notes receivable. Based on the results of the Company’s evaluation, the adoption of ASU 2016-13 resulted in a one-time cumulative-effect adjustment through retained earnings of \$6,784,300 to increase its allowance for credit losses related to the convertible notes receivable, interest receivable, accounts receivable, revenues in excess of billings, and other receivables.

The following table presents the impact of adopting ASC Topic 326 as of July 1, 2020:

Asset Classification	Adjustment to Adopt ASC Topic 326
Allowance for credit losses - accounts receivable	\$ 109,486
Allowance for credit losses - accounts receivable - related party	1,282,505
Allowance for credit losses - revenue in excess of billings - related party	8,163
Allowance for credit losses - convertible notes receivable - related party	4,250,000
Allowance for credit losses - other current assets	1,134,146
	<u>\$ 6,784,300</u>

Accounts receivable includes trade accounts receivables from the Company’s customers, net of an allowance for credit risk. Accounts receivable are recorded at the invoiced amount and do not bear interest. In establishing the required allowance, management regularly reviews the composition of accounts receivable and analyzes customer credit worthiness, customer concentrations, current economic trends and changes in customer payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

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Revenue in excess of billings, relates to services performed which were not billed, net of an allowance for credit risk. As customers are billed under the terms of the contract, the corresponding amount is transferred to accounts receivable. In establishing the required allowance, management regularly reviews the composition of and analyzes customer credit worthiness, customer concentrations, current economic trends, changes in customer payment patterns, the project status and assesses individual unbilled contract assets over a specific aging and amount. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The convertible notes receivable represents loans provided to WRLD3D. The allowance for credit risk for the convertible notes is established based on various quantitative and qualitative factors including customer credit worthiness, current economic trends and changes in payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

NOTE 3 – REVENUE RECOGNITION

The Company determines revenue recognition through the following steps:

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

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

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

Core Revenue

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

Non-Core Revenue

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

Performance Obligations

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

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

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

Software Licenses

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

Subscription and Support

Subscription

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

Support

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

Professional Services

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

BPO and Internet Services

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

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Disaggregated Revenue

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

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2020	2019	2020	2019
Core:				
License	\$ 2,586,504	\$ 176,706	\$ 2,589,979	\$ 2,640,922
Subscription and support	5,724,802	5,104,736	10,896,665	9,711,112
Services	3,191,375	8,627,927	9,064,313	13,254,196
Services - related party	-	57,424	-	140,357
Total core revenue, net	<u>11,502,681</u>	<u>13,966,793</u>	<u>22,550,957</u>	<u>25,746,587</u>
Non-Core:				
Services	1,618,779	1,723,226	3,217,881	3,515,848
Total non-core revenue, net	<u>1,618,779</u>	<u>1,723,226</u>	<u>3,217,881</u>	<u>3,515,848</u>
Total net revenue	<u>\$ 13,121,460</u>	<u>\$ 15,690,019</u>	<u>\$ 25,768,838</u>	<u>\$ 29,262,435</u>

Significant Judgments

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

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

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

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

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

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

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

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

Contract Balances

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

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

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

	As of December 31, 2020	As of June 30, 2020
Revenues in excess of billings	\$ 13,646,069	\$ 18,506,733
Deferred Revenue	\$ 3,753,781	\$ 4,095,472

During the three and six months ended December 31, 2020, the Company recognized revenue of \$762,484 and \$3,790,120, respectively, that was included in the deferred revenue balance at the beginning of the period. All other activity in deferred revenue is due to the timing of invoicing in relation to the timing of revenue recognition.

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Revenue allocated to remaining performance obligations represents the transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted but unsatisfied performance obligations were approximately \$48,262,490 as of December 31, 2020, of which the Company estimates to recognize approximately \$12,922,159 in revenue over the next 12 months and the remainder over an estimated 5 years thereafter. Actual revenue recognition depends in part on the timing of software modules installed at various customer sites. Accordingly, some factors that affect the Company's revenue, such as the availability and demand for modules within customer geographic locations, is not entirely within the Company's control. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that its contracts generally do not include a significant financing component. The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, and not to facilitate financing arrangements.

Deferred Revenue

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

Practical Expedients and Exemptions

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

- The Company does not evaluate a contract for a significant financing component if payment is expected within one year or less from the transfer of the promised items to the customer.
- The Company generally expenses sales commissions and sales agent fees when incurred when the amortization period would have been one year or less or the commissions are based on cashed received. These costs are recorded within sales and marketing expense in the Consolidated Statement of Operations.
- The Company does not disclose the value of unsatisfied performance obligations for contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed (applies to time-and-material engagements).

Costs to Obtain a Contract

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

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NOTE 4 – EARNINGS PER SHARE

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

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

	For the three months ended December 31,			For the six months ended December 31, 2020		
	2020					
	<u>Net Loss</u>	<u>Shares</u>	<u>Per Share</u>	<u>Net Income</u>	<u>Shares</u>	<u>Per Share</u>
Basic income (loss) per share:						
Net income (loss) available to common shareholders	\$ (242,104)	11,580,030	\$ (0.02)	\$ 475,450	11,683,631	\$ 0.04
Effect of dilutive securities						
Share grants	-	-	-	-	-	-
Diluted income (loss) per share	<u>\$ (242,104)</u>	<u>11,580,030</u>	<u>\$ (0.02)</u>	<u>\$ 475,450</u>	<u>11,683,631</u>	<u>\$ 0.04</u>

	For the three months ended December 31,			For the six months ended December 31, 2019		
	2019					
	<u>Net Income</u>	<u>Shares</u>	<u>Per Share</u>	<u>Net Loss</u>	<u>Shares</u>	<u>Per Share</u>
Basic income (loss) per share:						
Net income (loss) available to common shareholders	\$ 585,975	11,724,606	\$ 0.05	\$ (1,241,972)	11,694,423	\$ (0.11)
Effect of dilutive securities						
Share grants	-	-	-	-	-	-
Diluted income (loss) per share	<u>\$ 585,975</u>	<u>11,724,606</u>	<u>\$ 0.05</u>	<u>\$ (1,241,972)</u>	<u>11,694,423</u>	<u>\$ (0.11)</u>

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		For the Six Months	
	Ended December 31,		Ended December 31,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Stock Options	-	40,386	-	40,386
Share Grants	41,112	119,921	41,112	119,921
	<u>41,112</u>	<u>160,307</u>	<u>41,112</u>	<u>160,307</u>

NOTE 5 – OTHER COMPREHENSIVE INCOME AND FOREIGN CURRENCY

The accounts of NTE, AEL, VLSH and VLS use the British Pound; VLSIL uses the Euro; NetSol PK, Connect, and NetSol Innovation use the Pakistan Rupee; NTPK Thailand and NetSol Thai use the Thai Baht; Australia uses the Australian dollar; and NetSol Beijing uses the Chinese Yuan as the functional currencies. NetSol Technologies, Inc., and its subsidiary, NTA, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Accumulated translation losses classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet were \$32,060,151 and \$34,085,047 as of December 31, 2020 and June 30, 2020, respectively. During the three and six months ended December 31, 2020, comprehensive income (loss) in the consolidated statements of comprehensive income (loss) included a translation gain attributable to NetSol of \$1,150,080 and \$2,024,896, respectively. During the three and six months ended December 31, 2019, comprehensive income (loss) in the consolidated statements of comprehensive income (loss) included a translation gain attributable to NetSol of \$1,765,029 and \$2,668,374, respectively.

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NOTE 6 – MAJOR CUSTOMERS

During the six months ended December 31, 2020, revenues from Daimler Financial Services (“DFS”) and BMW Financial (“BMW”) were \$5,402,152 and \$3,051,244, respectively representing 21.0% and 11.8%, respectively of revenues. During the six months ended December 31, 2019 revenues from these two customers were \$8,691,233 and \$4,793,304 representing 29.7% and 16.4% of revenues. The revenue from these customers are shown in the Asia – Pacific segment.

Accounts receivable from DFS and BMW at December 31, 2020, were \$1,263,670 and \$22,697, respectively. Accounts receivable at June 30, 2020, were \$4,821,468 and \$474,271, respectively. Revenues in excess of billings at December 31, 2020 were \$6,800,273 and \$1,084,396 for DFS and BMW, respectively. Revenues in excess of billings at June 30, 2020, were \$5,709,226 and \$6,977,375 for DFS and BMW, respectively. Included in this amount was \$Nil and \$1,300,289 shown as long term at December 31, 2020 and June 30, 2020, respectively.

NOTE 7 – CONVERTIBLE NOTES RECEIVABLE – RELATED PARTY

The Company has entered into multiple convertible note receivable agreements with WRLD3D. The convertible notes bear interest ranging from 5% to 10% with various maturity dates. The convertible notes have conversion features which allow the Company to convert the notes into shares of WRLD3D stock upon the occurrence of certain events. The Company has a security interest in all of WRLD3D’s personal property, inventory, equipment, general intangibles, financial assets, investment property, securities, deposit accounts and the proceeds thereof.

The following table summarizes the convertible notes receivable from WRLD3D.

Agreement Date	Interest Rate	Maturity Date	Convertible Note Amount	Accrued Interest
May 25, 2017	5%	March 2, 2018	\$ 750,000	\$ 110,202
February 9, 2018	10%	March 31, 2019	2,500,000	500,773
April 1, 2019	10%	March 31, 2020	600,000	57,648
August 19, 2019	10%	March 31, 2020	400,000	32,439
			<u>4,250,000</u>	<u>701,062</u>
Less allowance for doubtful account			<u>(4,250,000)</u>	<u>(701,062)</u>
Net Balance			<u>\$ -</u>	<u>\$ -</u>

The Company has an accrued interest balance of \$701,062 at December 31, 2020 and June 30, 2020, respectively, which is included in “Other current assets”. Starting July 1, 2020, the Company is not accruing interest.

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NOTE 8 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of December 31, 2020	As of June 30, 2020
Prepaid Expenses	\$ 1,243,439	\$ 1,035,415
Advance Income Tax	332,023	355,482
Employee Advances	199,503	44,415
Security Deposits	280,611	270,403
Other Receivables	112,612	1,239,221
Other Assets	227,797	163,244
Total	\$ 2,395,985	\$ 3,108,180

NOTE 9 – REVENUES IN EXCESS OF BILLINGS – LONG TERM

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

	As of December 31, 2020	As of June 30, 2020
Revenues in excess of billings - long term	\$ 376,874	\$ 1,341,575
Present value discount	(20,815)	(41,286)
Net Balance	\$ 356,059	\$ 1,300,289

Pursuant to revenue recognition for contract accounting, the Company had recorded revenues in excess of billings long-term for amounts billable after one year. During the three and six months ended December 31, 2020, the Company accreted \$27,766 and \$41,826, respectively. During the three and six months ended December 31, 2019, the Company accreted \$13,821 and \$27,681, respectively, which were recorded in interest income for those periods. The Company used the discounted cash flow method with an interest rate of 4.65% and 4.35% for the period ended December 31, 2020 and June 30, 2020, respectively.

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NOTE 10 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	As of December 31, 2020	As of June 30, 2020
Office Furniture and Equipment	\$ 3,213,526	\$ 3,143,833
Computer Equipment	21,331,085	19,256,543
Assets Under Capital Leases	1,511,557	1,443,423
Building	6,123,262	5,848,813
Land	1,586,153	1,512,905
Capital Work In Progress	30,079	27,648
Autos	1,475,366	1,348,405
Improvements	38,062	36,929
Subtotal	<u>35,309,090</u>	<u>32,618,499</u>
Accumulated Depreciation	<u>(23,099,590)</u>	<u>(21,288,868)</u>
Property and Equipment, Net	<u>\$ 12,209,500</u>	<u>\$ 11,329,631</u>

For the three and six months ended December 31, 2020, depreciation expense totaled \$485,456 and \$981,723, respectively. Of these amounts, \$263,884 and \$538,361, respectively, are reflected in cost of revenues. For the three and six months ended December 31, 2019, depreciation expense totaled \$484,662 and \$950,113, respectively. Of these amounts, \$269,183 and \$532,247, respectively, are reflected in cost of revenues.

Following is a summary of fixed assets held under finance leases as of December 31, 2020 and June 30, 2020:

	As of December 31, 2020	As of June 30, 2020
Computers and Other Equipment	\$ 362,337	\$ 328,621
Furniture and Fixtures	56,722	51,119
Vehicles	1,092,498	1,063,683
Total	<u>1,511,557</u>	<u>1,443,423</u>
Less: Accumulated Depreciation - Net	<u>(736,767)</u>	<u>(667,096)</u>
	<u>\$ 774,790</u>	<u>\$ 776,327</u>

Finance lease term and discount rate were as follows:

	As of December 31, 2020
Weighted average remaining lease term - Finance leases	<u>1.01 Years</u>
Weighted average discount rate - Finance leases	<u>7.6%</u>

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NOTE 11 - LEASES

The Company leases certain office space, office equipment and autos with remaining lease terms of one year to 10 years under leases classified as financing and operating. For certain leases, the Company has options to extend the lease term for additional periods ranging from one year to 10 years.

The Company treats a contract as a lease when the contract conveys the right to use a physically distinct asset for a period of time in exchange for consideration, or the Company directs the use of the asset and obtains substantially all the economic benefits of the asset. These leases are recorded as right-of-use (“ROU”) assets and lease obligation liabilities for leases with terms greater than 12 months. ROU assets represent the Company’s right to use an underlying asset for the entirety of the lease term. Lease liabilities represent the Company’s obligation to make payments over the life of the lease. A ROU asset and a lease liability are recognized at commencement of the lease based on the present value of the lease payments over the life of the lease. Initial direct costs are included as part of the ROU asset upon commencement of the lease. Since the interest rate implicit in a lease is generally not readily determinable for the operating leases, the Company uses an incremental borrowing rate to determine the present value of the lease payments. The incremental borrowing rate represents the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar lease term to obtain an asset of similar value. The Company used the incremental borrowing rate on July 1, 2019 for all leases that commenced prior to that date. For finance leases, the Company used the incremental borrowing rate implicit in the lease.

The Company reviews the impairment of ROU assets consistent with the approach applied for the Company’s other long-lived assets. The Company reviews the recoverability of long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company’s ability to recover the carrying value of the asset from the expected undiscounted future pre-tax cash flows of the related operations.

The Company elected the practical expedient to exclude short-term leases (leases with original terms of 12 months or less) from ROU asset and lease liability accounts.

Lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred. Variable payments change due to facts or circumstances occurring after the commencement date, other than the passage of time, and do not result in a re-measurement of lease liabilities. The Company’s variable lease payments include payments for finance leases that are adjusted based on a change in the Karachi Inter Bank Offer Rate. The Company’s lease agreements do not contain any significant residual value guarantees or restrictive covenants.

Supplemental balance sheet information related to leases was as follows:

	As of December 31, 2020	As of June 30, 2020
Assets		
Operating lease assets, net	\$ 1,937,907	\$ 2,360,129
Liabilities		
Current		
Operating	\$ 1,169,960	\$ 1,111,912
Non-current		
Operating	962,724	1,339,965
Total Lease Liabilities	\$ 2,132,684	\$ 2,451,877

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The components of lease cost were as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2020	2019	2020	2019
Amortization of finance lease assets	\$ 31,926	\$ 108,670	\$ 77,179	\$ 135,000
Interest on finance lease obligation	6,953	29,413	18,645	52,331
Operating lease cost	310,740	334,492	630,826	598,069
Short term lease cost	13,493	78,862	30,071	152,972
Sub lease income	(8,738)	(8,514)	(17,362)	(16,713)
Total lease cost	<u>\$ 354,374</u>	<u>\$ 542,923</u>	<u>\$ 739,359</u>	<u>\$ 921,659</u>

Lease term and discount rate were as follows:

	As of December 31, 2020
Weighted average remaining lease term - Operating leases	<u>2.08 Years</u>
Weighted average discount rate - Operating leases	<u>5.6%</u>

Supplemental disclosures of cash flow information related to leases were as follows:

	For the Six Months Ended	
	December 31, 2020	December 31, 2019
Cash flows related to lease liabilities		
Operating cash flows related to operating leases	<u>\$ 529,970</u>	<u>\$ 566,589</u>

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Maturities of operating lease liabilities were as follows as of December 31, 2020:

	Amount
Within year 1	\$ 1,249,702
Within year 2	734,691
Within year 3	222,387
Within year 4	42,317
Within year 5	824
Thereafter	2,882
Total Lease Payments	2,252,803
Less: Imputed interest	(120,119)
Present Value of lease liabilities	2,132,684
Less: Current portion	(1,169,960)
Non-Current portion	\$ 962,724

The Company is a lessor for certain office space leased by the Company and sub-leased to others under non-cancelable leases. These lease agreements provide for a fixed base rent and terminate by July 2021. All leases are considered operating leases. There are no rights to purchase the premises and no residual value guarantees. For the three and six months ended December 31, 2020, the Company received lease income of \$8,738 and \$17,362, respectively. For the three and six months ended December 31, 2019, the Company received lease income of \$8,514 and \$16,713, respectively.

NOTE 12 – LONG TERM INVESTMENT

Drivemate

The Company and Drivemate Co., Ltd. (“Drivemate”) entered into a subscription agreement on April 25, 2019, (“Drivemate Agreement”) whereby the Company will purchase an equity interest of 30% in Drivemate. Per the Drivemate Agreement, the Company will purchase 5,469 preferred shares for \$1,800,000 consisting of \$500,000 cash and \$1,300,000 in services. The Company has paid \$437,500 in cash, provided services of \$1,300,000 and has received 5,217 shares. The remaining \$62,500 will be paid in increments based on the contract with the final payment due 24 months from the date of the Drivemate Agreement signing. As of December 31, 2020, the Company owns 21.47% of Drivemate. Per the Drivemate Agreement, the Company appointed two directors to the Drivemate board. The Company determined that it met the significant influence criteria since two of the four directors are appointed by the Company and the Company is to own 30% of Drivemate at the final payment date; therefore, the Company accounts for the investment using the equity method of accounting.

The Company did not perform any services during the three and six months ended December 31, 2020. During the three and six months ended December 31, 2019, the Company performed \$303,101 and \$507,716 of services, respectively.

Under the equity method of accounting, the Company recorded its share of net income of \$3,324 and \$3,919 for the three and six months ended December 31, 2020, respectively.

Under the equity method of accounting, the Company recorded its share of net loss of \$5,856 and \$11,248 for the three and six months ended December 31, 2019, respectively.

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WRLD3D-Related Party

On March 2, 2017, the Company purchased a 4.9% interest in WRLD3D, a non-public company, for \$1,111,111. The Company paid \$555,556 at the initial closing and \$555,555 on September 1, 2017. NetSol PK, the subsidiary of the Company, purchased a 12.2% investment in WRLD3D, for \$2,777,778 which was earned by providing IT and enterprise software solutions.

NetSol PK has not provided services to WRLD3D for the three and six months ended December 31, 2020, and has provided services of \$57,424 and \$140,357 for the three and six months ended December 31, 2019, which is recorded as services-related party. Accounts receivable and revenue in excess of billing were \$1,373,099 and \$8,163 at June 30, 2020, respectively. Upon adoption of ASC 326, an allowance was established for the full amounts of these accounts. The net balances of accounts receivable and revenues in excess of billing were \$Nil at December 31, 2020.

Under the equity method of accounting, the Company recorded its share of net loss of \$47,009 and \$155,454 for the three and six months ended December 31, 2020 and the Company recorded its share of net loss of \$158,940 and \$342,772 for the three and six months ended December 31, 2019, respectively.

The following table reflects the above investments at December 31, 2020.

	Drivemate	WRLD3D	Total
Gross investment	\$ 1,737,500	\$ 3,888,889	\$ 5,626,389
Cumulative net loss on investment	(16,537)	(1,445,687)	(1,462,224)
Cumulative other comprehensive income (loss)	-	(429,258)	(429,258)
Net investment	<u>\$ 1,720,963</u>	<u>\$ 2,013,944</u>	<u>\$ 3,734,907</u>

NOTE 13 - INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of December 31, 2020	As of June 30, 2020
Product Licenses - Cost	\$ 47,244,997	\$ 47,244,997
Effect of Translation Adjustment	(14,779,667)	(16,045,322)
Accumulated Amortization	(27,711,787)	(25,808,598)
Net Balance	<u>\$ 4,753,543</u>	<u>\$ 5,391,077</u>

(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 \$4,753,543 will be amortized over the next 2.75 years. Amortization expense for the three and six months ended December 31, 2020 was \$449,865 and \$882,637, respectively. Amortization expense for the three and six months ended December 31, 2019 was \$465,169 and \$921,770, respectively.

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(B) Future Amortization

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

Period ended:	
December 31, 2021	\$ 1,814,714
December 31, 2022	1,814,714
December 31, 2023	1,124,115
	<u>\$ 4,753,543</u>

NOTE 14 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of December 31, 2020	As of June 30, 2020
Accounts Payable	\$ 1,329,315	\$ 1,351,158
Accrued Liabilities	4,058,567	3,349,624
Accrued Payroll & Taxes	485,642	537,888
Taxes Payable	276,305	303,996
Other Payable	177,363	138,171
Total	<u>\$ 6,327,192</u>	<u>\$ 5,680,837</u>

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NOTE 15 – DEBTS

Notes payable and finance leases consisted of the following:

Name		As of December 31, 2020		
		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	\$ 142,582	\$ 142,582	\$ -
Paycheck Protection Program Loans	(2)	469,721	339,243	130,478
Bank Overdraft Facility	(3)	-	-	-
Term Finance Facility	(4)	2,168,714	850,166	1,318,548
Loan Payable Bank - Export Refinance	(5)	3,119,541	3,119,541	-
Loan Payable Bank - Running Finance	(6)	-	-	-
Loan Payable Bank - Export Refinance II	(7)	2,370,850	2,370,850	-
Loan Payable Bank - Running Finance II	(8)	-	-	-
Loan Payable Bank - Export Refinance III	(9)	3,119,542	3,119,542	-
Term Finance Facility	(10)	63,677	18,790	44,887
		<u>11,454,627</u>	<u>9,960,714</u>	<u>1,493,913</u>
Subsidiary Finance Leases	(11)	483,262	422,858	60,404
		<u>\$ 11,937,889</u>	<u>\$ 10,383,572</u>	<u>\$ 1,554,317</u>

Name		As of June 30, 2020		
		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	\$ 81,728	\$ 81,728	\$ -
Paycheck Protection Program Loans	(2)	469,721	182,669	287,052
Bank Overdraft Facility	(3)	-	-	-
Term Finance Facility	(4)	1,380,878	354,337	1,026,541
Loan Payable Bank - Export Refinance	(5)	2,975,482	2,975,482	-
Loan Payable Bank - Running Finance	(6)	-	-	-
Loan Payable Bank - Export Refinance II	(7)	2,261,365	2,261,365	-
Loan Payable Bank - Running Finance II	(8)	-	-	-
Loan Payable Bank - Export Refinance III	(9)	2,975,483	2,975,483	-
Term Finance Facility	(10)	65,473	16,423	49,050
		<u>10,210,130</u>	<u>8,847,487</u>	<u>1,362,643</u>
Subsidiary Finance Leases	(11)	469,406	292,074	177,332
		<u>\$ 10,679,536</u>	<u>\$ 9,139,561</u>	<u>\$ 1,539,975</u>

(1) The Company finances Directors' and Officers' ("D&O") liability insurance and Errors and Omissions ("E&O") liability insurance, for which the D&O and E&O balances are renewed on an annual basis and, as such, are recorded in current maturities. The interest rate on these financings were ranging from 5.0% to 7.0% as of December 31, 2020 and June 30, 2020.

(2) The Company and its subsidiary, NTA, received Paycheck Protection Program loans of \$469,721 introduced by the U.S. Government during the COVID-19 Pandemic. This loan is forgivable if the Company meets the criteria set by the U.S. Government. The loans carry an interest rate of 1% and have a maturity date of two years from the date of the disbursement of the loan. As of December 31, 2020, the Company has not applied for the loan forgiveness.

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(3) 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 \$410,959. The annual interest rate was 5.12% as of December 31, 2020. The total outstanding balance as of December 31, 2020 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, 2020, NTE was in compliance with this covenant.

(4) The Company's subsidiary, NetSol PK, has a term finance facility from Askari Bank Limited, approved by the Government of Pakistan to protect the employment situation during the Pandemic COVID-19. This is a term loan payable in three years. The availed facility amount was Rs. 347,601,639 or \$2,168,714, at December 31, 2020, of which \$850,166 is shown as current and the remaining \$1,318,548 is shown as long term. The availed facility amount was Rs. 232,042,664 or \$1,380,878, at June 30, 2020, of which \$354,337 is shown as current and the remaining \$1,026,541 is shown as long term. The interest rate for the loan was 3% at December 31, 2020 and June 30, 2020.

(5) 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 nine months. The total facility amount is Rs. 500,000,000 or \$3,119,541 at December 31, 2020 and Rs. 500,000,000 or \$2,975,482 at June 30, 2020. The interest rate for the loan was 3% at December 31, 2020 and June 30, 2020.

(6) The Company's subsidiary, NetSol PK, has a running finance facility with Askari Bank Limited, secured by NetSol PK's assets. The total facility amount is Rs. 75,000,000 or \$467,931, at December 31, 2020. The balance outstanding at December 31, 2020 and June 30, 2020 was Rs. Nil. The interest rate for the loan was 9.29% and 7.2% at December 31, 2020 and June 30, 2020, respectively.

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, 2020, NetSol PK was in compliance with this covenant.

(7) 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 nine months. The total facility amount is Rs. 380,000,000 or \$2,370,851 and Rs. 380,000,000 or \$2,261,366 at December 31, 2020 and June 30, 2020, respectively. The interest rate for the loan was 3% at December 31, 2020 and June 30, 2020.

(8) The Company's subsidiary, NetSol PK, has a running finance facility with Samba Bank Limited, secured by NetSol PK's assets. The total facility amount is Rs. 120,000,000 or \$748,690 and Rs. 120,000,000 or \$714,116, at December 31, 2020 and June 30, 2020, respectively. The interest rate for the loan was 8.79% and 7.7% at December 31, 2020 and June 30, 2020, respectively. The balance outstanding at December 31, 2020 and June 30, 2020 was Rs. 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, 2020, NetSol PK was in compliance with these covenants.

(9) The Company's subsidiary, NetSol PK, has an export refinance facility with Habib Metro Bank Limited, secured by NetSol PK's assets. This is a revolving loan that matures every nine months. The total facility amount is Rs. 900,000,000 or \$5,615,173 and NetSol PK used Rs. 500,000,000 or \$3,119,541 at December 31, 2020. The total facility amount is Rs. 900,000,000 or \$5,355,868 and NetSol PK used Rs. 500,000,000 or \$2,975,482 at June 30, 2020. The interest rate for the loan was 3% at December 31, 2020 and June 30, 2020.

(10) In March 2019, the Company's subsidiary, VLS, entered into a loan agreement. The loan amount was £69,549, or \$95,273, for a period of 5 years with monthly payments of £1,349, or \$1,848. As of December 31, 2020, the subsidiary has used this facility up to \$63,677, of which \$44,887 was shown as long-term and \$18,790 as current. The interest rate was 6.14% at December 31, 2020.

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(11) The Company leases various fixed assets under finance lease arrangements expiring in various years through 2024. The assets and liabilities under finance 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 finance leases is included in depreciation expense for the three and six months ended December 31, 2020 and 2019.

Following is the aggregate minimum future lease payments under finance leases as of December 31, 2020:

	Amount
Minimum Lease Payments	
Within year 1	\$ 433,875
Within year 2	37,913
Within year 3	22,027
Within year 4	3,671
Total Minimum Lease Payments	497,486
Interest Expense relating to future periods	(14,224)
Present Value of minimum lease payments	483,262
Less: Current portion	(422,858)
Non-Current portion	<u>\$ 60,404</u>

NOTE 16 - STOCKHOLDERS' EQUITY

During the three and six months ended December 31, 2020, the Company issued 3,020 and 6,040 shares of common stock for services rendered by officers of the Company. These shares were valued at the fair market value of \$17,068 and \$34,136, respectively.

During the three and six months ended December 31, 2020, the Company issued nil and 1,983 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 \$Nil and \$11,997.

During the three and six months ended December 31, 2020, the Company issued 7,393 and 17,286 shares of its common stock to employees pursuant to the terms of their employment agreements valued at \$41,600 and \$99,548, respectively.

NOTE 17 - INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

The following table summarizes stock grants awarded as compensation:

	# of shares	Weighted Average Grant Date Fair Value (\$)
Unvested, June 30, 2020	66,421	\$ 5.88
Vested	(25,309)	\$ 5.76
Unvested, December 31, 2020	<u>41,112</u>	<u>\$ 5.75</u>

For the three and six months ended December 31, 2020, the Company recorded compensation expense of \$74,167 and \$164,784, respectively. For the three and six months ended December 31, 2019, the Company recorded compensation expense of \$164,292 and \$328,585, respectively. The compensation expense related to the unvested stock grants as of December 31, 2020 was \$208,445 which will be recognized during the fiscal years 2021 through 2022.

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NOTE 18 – CONTINGENCIES

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

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, 2020 and June 30, 2020:

	As of December 31, 2020	As of June 30, 2020
Identifiable assets:		
Corporate headquarters	\$ 3,814,916	\$ 4,508,724
North America	6,073,162	5,949,653
Europe	11,617,067	10,856,814
Asia - Pacific	63,953,775	67,157,898
Consolidated	<u>\$ 85,458,920</u>	<u>\$ 88,473,089</u>

The following table presents a summary of investment under equity method as of December 31, 2020 and June 30, 2020:

	As of December 31, 2020	As of June 30, 2020
Investment in associates under equity method:		
Corporate headquarters	\$ 424,504	\$ 473,692
Asia - Pacific	3,310,403	1,914,000
Consolidated	<u>\$ 3,734,907</u>	<u>\$ 2,387,692</u>

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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,	
	2020	2019	2020	2019
Revenues from unaffiliated customers:				
North America	\$ 1,016,556	\$ 1,277,343	\$ 1,829,434	\$ 2,254,518
Europe	2,726,206	2,842,329	5,878,097	5,434,668
Asia - Pacific	9,378,698	11,512,923	18,061,307	21,432,892
	<u>13,121,460</u>	<u>15,632,595</u>	<u>25,768,838</u>	<u>29,122,078</u>
Revenue from affiliated customers				
Asia - Pacific	-	57,424	-	140,357
	<u>-</u>	<u>57,424</u>	<u>-</u>	<u>140,357</u>
Consolidated	<u>\$ 13,121,460</u>	<u>\$ 15,690,019</u>	<u>\$ 25,768,838</u>	<u>\$ 29,262,435</u>
Intercompany revenue				
Europe	\$ 126,757	\$ 164,401	\$ 265,913	\$ 311,226
Asia - Pacific	3,125,729	2,505,437	5,284,357	3,570,203
Eliminated	<u>\$ 3,252,486</u>	<u>\$ 2,669,838</u>	<u>\$ 5,550,270</u>	<u>\$ 3,881,429</u>
Net income (loss) after taxes and before non-controlling interest:				
Corporate headquarters	\$ 1,173,146	\$ (379,882)	\$ 2,340,941	\$ (1,244,092)
North America	(47,019)	154,335	(328,816)	96,348
Europe	173,085	423,649	776,101	804,743
Asia - Pacific	(1,378,400)	348,834	(1,743,937)	(1,371,322)
Consolidated	<u>\$ (79,188)</u>	<u>\$ 546,936</u>	<u>\$ 1,044,289</u>	<u>\$ (1,714,323)</u>

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

	For the Six Months Ended December 31,	
	2020	2019
Capital expenditures:		
North America	\$ 1,521	\$ 2,405
Europe	301,233	329,332
Asia - Pacific	947,141	454,262
Consolidated	<u>\$ 1,249,895</u>	<u>\$ 785,999</u>

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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, 2020
NetSol PK	33.88%	\$ 7,165,477
NetSol-Innovation	33.88%	133,243
NetSol Thai	0.006%	(262)
OTOZ Thai	0.006%	(42)
OTOZ	5.00%	(11,143)
Total		<u>\$ 7,287,273</u>

SUBSIDIARY	Non-Controlling Interest %	Non-Controlling Interest at June 30, 2020
NetSol PK	33.88%	\$ 6,361,747
NetSol-Innovation	33.88%	128,514
NetSol Thai	0.006%	(39)
OTOZ Thai	0.006%	4
OTOZ	5.00%	(1,326)
Total		<u>\$ 6,488,900</u>

NOTE 21 – INCOME TAXES

The current tax provision is based on taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for tax on income is calculated at the current rates of taxation as applicable after considering tax credit and tax rebates available, if any. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Our effective tax rate is lower than the U.S. statutory rate primarily because of more earnings realized in countries that have lower statutory tax rates. Our effective tax rate in the future will depend on the portion of our profits earned within and outside the United States. Income from the export of computer software and its related services developed in Pakistan is exempt from tax through June 30, 2025; however, tax at the applicable rates is charged to the income from revenue generated from other than core business activities.

During the three and six months ended December 31, 2020, the Company recorded an income tax provision of \$245,434 and \$509,728, respectively, resulting in an effective tax rate of 147.6% and 32.8%, respectively. During the three and six months ended December 31, 2019, the Company recorded an income tax provision of \$610,510 and \$848,748, respectively, resulting in an effective tax rate of 52.7% and (98.1%), respectively.

NOTE 22 – SUBSEQUENT EVENTS

Subsequent to December 31, 2020, the Company purchased an additional 92,440 shares at an average price of \$4.03 per share pursuant to the stock repurchase plan approved by the Company's Board of Directors on July 30, 2020.

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, 2020. 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, 2020, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

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

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

Forward-Looking Information

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

Business Overview

NetSol Technologies, Inc. (NasdaqCM: NTKW) 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, Shanghai, Jakarta and Sydney

NetSol's offerings include its flagship global solution, NFS™. A robust suite of four software applications that is an end-to-end solution for the asset finance industry covering the complete leasing and finance cycle starting from quotation origination through end of contract transactions and including digital channel support with intuitive mobile applications. The four 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 companies of any size, including those with multi-billion-dollar portfolios.

NFS Ascent®

NFS Ascent®, the Company's next generation platform, offers 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 40 years combined with UX design concepts. The platform's framework allows auto captive and asset finance companies to rapidly transform legacy driven technology into a state-of-the-art IT and business process environment. At the core of the NFS Ascent® platform, is a lease accounting and contract processing engine, which allows for an array of interest calculation methods, as well as robust accounting of multi-billion-dollar lease portfolios in compliance with various regulatory standards. 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. Pricing models for NFS Ascent® are also available on a software as a service ("SaaS") or subscription-based pricing as an alternative to the traditional license model. Subscription-based pricing is being offered on a monthly, quarterly or annual basis and decreases the cost of the initial buy-in for new customers while providing an alternative to current customers seeking lower software usage and maintenance costs.

NFS Digital

NFS Digital enables a sales force for a finance and leasing company to access different channels like point of sale, field investigation and auditing as well as allowing end customers to access their contract details through a self-service mobile application.

Otoz Mobility Orchestration System

Otoz is a digital platform that helps automotive asset-holders (auto-manufacturers, auto-captives and fleet owners) and start-ups to launch, orchestrate and scale mobility businesses. Otoz platform is built on cutting-edge technology stack which comprises of Cloud-Native Architecture, Microservices, Artificial Intelligence, Machine Learning, Blockchain, DevOps and APIs. Otoz powerful feature-set allows automotive asset-holders with the ability to orchestrate a range of car-share and vehicle subscription services. The data-driven nature of platform empowers automotive asset-holders to maximize optimize and utilize mobility offerings. Otoz enables customers to book car-share and subscribe to vehicles through its intuitive, digital, and easy to use interface. An API driven architecture allows quick integration of ecosystem partners such as maintenance, roadside and offline jobs providers to allow seamless operation of mobility services.

LeasePak

In North America, NTA has and continues to develop the LeasePak CMS product which is now tailored to be an offering on the Microsoft Azure™ cloud. LeasePak streamlines the lease and loan management lifecycle, enabling superior portfolio management, flexible financial products (lease or loan terms) and sophisticated financial analysis and management to reduce operating costs, simplify accounting and improve profits. It is scalable from a basic offering to a collection of highly specialized add on modules for systems, portfolios and accounting methods for virtually all sizes and complexity of operations. It is the centerpiece of vehicle leasing infrastructure at leading Fortune 500 banks and Automotive Captives, 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 for asset disposition and remarketing.

LeasePak-SaaS

NTA also offers the LeasePak 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 highlights for the quarter ended December 31, 2020:

- We entered into an agreement with an existing tier one finance company in China for them to upgrade to our NFS Ascent® Retail and Wholesale platforms. The contract is expected to generate approximately \$9,000,000 during the contract term.
- A Captive auto finance company of a leading German Auto manufacturer based in China went successfully live with our NFS Ascent® Retail Platform.
- NetSol and WRLD3D introduced NXT - a smart workplace platform to support companies to return to work safely
- A rapidly growing U.K. bank serving small and medium-sized enterprises has successfully gone live with the NFS Ascent® Retail Platform. This is our first go live of an NFS Ascent® Retail client in the U.K.
- Daimler Financial Services went live with our NSF Ascent® Retail Platform in Thailand.
- We generated approximately \$1,500,000 by successfully implementing change requests from various customers across multiple regions.
- We entered into an agreement with a renowned financial services company in the U.S. to implement LeasePak, one of our legacy solutions. The contract is expected to generate approximately \$1,000,000 over the life of the contract.

Management has identified the following material trends affecting NetSol.

Positive trends:

- NFS Ascent[®] SaaS offering is gaining traction in mid-size auto captives in the North American and European markets.
- Mobility and digital transformation are the new norm showing acceleration in every sector particularly in auto and banking.
- On Cloud demand for our solution is on the rise.
- COVID-19 has created new dynamics for businesses and corporations with employees and executives working from home. Essentially, the decreased office and maintenance costs, as well as the sharply reduced travel expenses, should positively impact our financials.
- COVID-19 is creating new opportunities for our R&D teams to expand and monetize mobile and digital solutions in our space and complementary sectors.
- In developing markets, new interests are emerging from existing clients for upgrades and mobility platforms.
- Growing opportunities and dynamics of shared car ownership either through ride hailing and car sharing encouraging our innovation and development tools.
- OTOZ platform is showing positive trajectory of interest from existing and new auto leasing and Tier 1 companies in all of our markets, including China, the US and Europe.
- Improved stability in U.S. and Pakistan relationship boosting confidence and trade relations.
- China's China Pakistan Economic Corridor (CPEC) investment has exceeded \$62 billion investment from the originally planned \$46 billion on Pakistan energy and infrastructure sectors.
- China auto sector remains strong as our customers are constantly demanding 'Change Requests' or additional services and reflects resilience.

Negative trends:

- COVID-19 has caused a global recession that will adversely impact every one of our business sectors.
- Most OEMs and auto sectors are experiencing a major slowdown due to lockdowns and health concerns.
- The C-level decision making to acquire new systems or even upgrade will be elongated due to uncertainty of the COVID-19 virus.
- Due to travel restrictions caused by COVID-19, it is increasingly difficult to conduct face to face meetings for global clients and new prospects removing the personal connection essential to some decision making.
- The COVID-19 pandemic has adversely affected live industry conferences and events, such as those held by the Equipment Leasing and Finance Association (ELFA), reducing leads and market exposure.
- Working from the office poses its own risk of virus spread until it vanishes completely.
- US and China trade conflicts tend to further aggravate the global business environment.
- Global outlook for auto sector is uncertain if the recessionary impact worsens.

CHANGES IN FINANCIAL CONDITION

Quarter Ended December 31, 2020 Compared to the Quarter Ended December 31, 2019

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the three months ended December 31, 2020 and 2019 as a percentage of revenues.

	For the Three Months Ended December 31,			
	2020	%	2019	%
Net Revenues:				
License fees	\$ 2,586,504	19.7%	\$ 176,706	1.1%
Subscription and support	5,724,802	43.6%	5,104,736	32.5%
Services	4,810,154	36.7%	10,351,153	66.0%
Services - related party	-	0.0%	57,424	0.4%
Total net revenues	<u>13,121,460</u>	100.0%	<u>15,690,019</u>	100.0%
Cost of revenues:				
Salaries and consultants	5,294,662	40.4%	4,625,872	29.5%
Travel	159,174	1.2%	1,572,923	10.0%
Depreciation and amortization	713,749	5.4%	734,352	4.7%
Other	911,566	6.9%	954,912	6.1%
Total cost of revenues	<u>7,079,151</u>	54.0%	<u>7,888,059</u>	50.3%
Gross profit	6,042,309	46.0%	7,801,960	49.7%
Operating expenses:				
Selling and marketing	1,558,027	11.9%	1,858,096	11.8%
Depreciation and amortization	221,572	1.7%	215,479	1.4%
General and administrative	4,065,788	31.0%	4,568,790	29.1%
Research and development cost	110,419	0.8%	454,605	2.9%
Total operating expenses	<u>5,955,806</u>	45.4%	<u>7,096,970</u>	45.2%
Income from operations	86,503	0.7%	704,990	4.5%
Other income and (expenses)				
Gain (loss) on sale of assets	(52,531)	-0.4%	528	0.0%
Interest expense	(94,241)	-0.7%	(88,006)	-0.6%
Interest income	210,854	1.6%	435,682	2.8%
Gain (loss) on foreign currency exchange transactions	13,981	0.1%	61,061	0.4%
Share of net loss from equity investment	(43,685)	-0.3%	(164,796)	-1.1%
Other income	45,365	0.3%	207,987	1.3%
Total other income (expenses)	<u>79,743</u>	0.6%	<u>452,456</u>	2.9%
Net income (loss) before income taxes	166,246	1.3%	1,157,446	7.4%
Income tax provision	(245,434)	-1.9%	(610,510)	-3.9%
Net income (loss)	(79,188)	-0.6%	546,936	3.5%
Non-controlling interest	(162,916)	-1.2%	39,039	0.2%
Net income (loss) attributable to NetSol	<u>\$ (242,104)</u>	-1.8%	<u>\$ 585,975</u>	3.7%

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
	2020	%	2019	%			
Net Revenues:	\$ 13,121,460	100.0%	\$ 15,690,019	100.0%	\$ (2,429,677)	\$ (138,882)	\$ (2,568,559)
Cost of revenues:	7,079,151	54.0%	7,888,059	50.3%	680,680	128,228	808,908
Gross profit	6,042,309	46.0%	7,801,960	49.7%	(1,748,997)	(10,654)	(1,759,651)
Operating expenses:	5,955,806	45.4%	7,096,970	45.2%	1,032,304	108,860	1,141,164
Income (loss) from operations	\$ 86,503	0.7%	\$ 704,990	4.5%	\$ (716,693)	\$ 98,206	\$ (618,487)

Net revenues for the quarter ended December 31, 2020 and 2019 are broken out among the segments as follows:

	2020		2019	
	Revenue	%	Revenue	%
North America	\$ 1,016,556	7.7%	\$ 1,277,343	8.1%
Europe	2,726,206	20.8%	2,842,329	18.1%
Asia-Pacific	9,378,698	71.5%	11,570,347	73.7%
Total	\$ 13,121,460	100.0%	\$ 15,690,019	100.0%

Revenues

License fees

License fees for the three months ended December 31, 2020 were \$2,586,504 compared to \$176,706 for the three months ended December 31, 2019 reflecting an increase of \$2,409,798 with a change in constant currency of \$2,263,574. During the three months ended December 31, 2020, we recognized approximately \$2,410,000 related to a new agreement with an existing tier one finance company in China to upgrade to our NFS Ascent[®] Retail and Wholesale platforms.

Subscription and support

Subscription and support fees for the three months ended December 31, 2020 were \$5,724,802 compared to \$5,104,736 for the three months ended December 31, 2019 reflecting an increase of \$620,066 with a change in constant currency of \$646,870. Subscription and support fees begin once a customer has “gone live” with our product. Subscription and support fees are recurring in nature, and we anticipate these fees to gradually increase as we implement both our NFS legacy products and NFS Ascent®.

Services

Services income for the three months ended December 31, 2020 was \$4,810,154 compared to \$10,351,153 for the three months ended December 31, 2019 reflecting a decrease of \$5,540,999 with a decrease in constant currency of \$5,282,697. The decrease in services revenue is due to the decrease in implementation revenue associated with customers who have gone live with our products. 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, 2020 was \$Nil compared to \$57,424 for the three months ended December 31, 2019 reflecting a decrease of \$57,424 with a change in constant currency of \$57,424. The decrease in related party service revenue is due to a decrease in service revenue related to services performed for WRLD3D.

Gross Profit

The gross profit was \$6,042,309, for the three months ended December 31, 2020 compared with \$7,801,960 for the three months ended December 31, 2019. This is a decrease of \$1,759,651 with a change in constant currency of \$1,748,997. The gross profit percentage for the three months ended December 31, 2020 also decreased to 46.0% from 49.7% for the three months ended December 31, 2019. The cost of sales was \$7,079,151 for the three months ended December 31, 2020 compared to \$7,888,059 for the three months ended December 31, 2019 for a decrease of \$808,908 and on a constant currency basis a decrease of \$680,680. As a percentage of sales, cost of sales increased from 50.3% for the three months ended December 31, 2019 to 54.0% for the three months ended December 31, 2020.

Salaries and consultant fees increased by \$668,790 from \$4,625,872 for the three months ended December 31, 2019 to \$5,294,662 for the three months ended December 31, 2020 and on a constant currency basis increased \$762,252. The increase is due to annual salary raises and the hiring of additional personnel to fulfill delivery requirements. As a percentage of sales, salaries and consultant expense increased from 29.9% for the three months ended December 31, 2019 to 40.4% for the three months ended December 31, 2020.

Travel expense was \$159,174 for the three months ended December 31, 2020 compared to \$1,572,923 for the three months ended December 31, 2019 for a decrease of \$1,413,749 with a decrease in constant currency of \$1,422,378. The decrease in travel expense is due to the travel restrictions associated with the COVID-19 pandemic.

Depreciation and amortization expense decreased to \$713,749 compared to \$734,352 for the three months ended December 31, 2019 or a decrease of \$20,603 and on a constant currency basis an increase of \$3,330.

Operating Expenses

Operating expenses were \$5,955,806 for the three months ended December 31, 2020 compared to \$7,096,970, for the three months ended December 31, 2019 for a decrease of 16.1% or \$1,141,164 and on a constant currency basis a decrease of 14.6% or \$1,032,304. As a percentage of sales, it increased from 45.2% to 45.4%. The decrease in operating expenses was primarily due to decreases in selling and marketing expenses, professional services, research and development and general and administrative expenses.

Selling and marketing expenses decreased \$300,069 or 16.2% and on a constant currency basis decreased \$288,331 or 15.5%. The decrease in selling and marketing expenses based on constant currency is due to a decrease in travel expenses and business development costs to market and sell NFS Ascent® globally.

General and administrative expenses were \$4,065,788 for the three months ended December 31, 2020 compared to \$4,568,790 for the three months ended December 31, 2019 or a decrease of \$503,002 or 11.0% and on a constant currency basis a decrease of \$408,015 or 8.9%. The decrease is primarily due to a reduction of approximately \$320,000 related to a withholding tax on dividends paid by NetSol PK and approximately \$105,000 of reduced travel expenses.

Income/Loss from Operations

Income from operations was \$86,503 for the three months ended December 31, 2020 compared to \$704,990 for the three months ended December 31, 2019. This represents a decrease of \$618,487 with a decrease of \$716,693 on a constant currency basis for the three months ended December 31, 2020 compared with the three months ended December 31, 2019. As a percentage of sales, income from operations was 1.0% for the three months ended December 31, 2020 compared to 4.5% for the three months ended December 31, 2019.

Other Income and Expense

Other income was \$79,743 for the three months ended December 31, 2020 compared to \$452,456 for the three months ended December 31, 2019. This represents a decrease of \$372,713 with a decrease of \$407,870 on a constant currency basis. The decrease is primarily due to the interest income and foreign currency exchange transactions. We did not accrue any interest income on the convertible notes receivable for the three months ended December 31, 2021. The majority of the contracts with NetSol PK are either in U.S. dollars or Euros; therefore, the currency fluctuations will lead to foreign currency exchange gains or losses depending on the value of the PKR compared to the U.S. dollar and the Euro. During the three months ended December 31, 2020, we recognized a gain of \$13,981 in foreign currency exchange transactions compared to a gain of \$61,061 for the three months ended December 31, 2019. During the three months ended December 31, 2020, the value of the U.S. dollar decreased 3.3% and the value of the Euro increased 1.2%, respectively, compared to the PKR. During the three months ended December 31, 2019, the value of the U.S. dollar decreased 1.4% and the value of and the Euro increased 1.3%, respectively, compared to the PKR.

Non-controlling Interest

For the three months ended December 31, 2020, the net income attributable to non-controlling interest was \$162,916, compared to a loss of \$39,039 for the three months ended December 31, 2019. The increase in non-controlling interest is primarily due to the increase in net income of NetSol PK.

Net Income / Loss attributable to NetSol

Our net loss was \$242,104 for the three months ended December 31, 2020 compared to net income of \$585,975 for the three months ended December 31, 2019. This is a decrease of \$828,079 with a decrease of \$961,226 on a constant currency basis, compared to the prior year. For the three months ended December 31, 2020, the net loss per share was \$0.02 for basic and diluted shares compared to net income per share of \$0.05 for basic and diluted shares for the three months ended December 31, 2019.

Six Months Ended December 31, 2020 Compared to the Six Months Ended December 31, 2019

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the six months ended December 31, 2020 and 2019 as a percentage of revenues.

	For the Six Months Ended December 31,			
	2020	%	2019	%
Net Revenues:				
License fees	\$ 2,589,979	10.1%	\$ 2,640,922	9.0%
Subscription and support	10,896,665	42.3%	9,711,112	33.2%
Services	12,282,194	47.7%	16,770,044	57.3%
Services - related party	-	0.0%	140,357	0.5%
Total net revenues	<u>25,768,838</u>	100.0%	<u>29,262,435</u>	100.0%
Cost of revenues:				
Salaries and consultants	9,821,311	38.1%	9,080,836	31.0%
Travel	262,926	1.0%	2,915,558	10.0%
Depreciation and amortization	1,420,998	5.5%	1,454,017	5.0%
Other	1,839,719	7.1%	1,899,436	6.5%
Total cost of revenues	<u>13,344,954</u>	51.8%	<u>15,349,847</u>	52.5%
Gross profit	12,423,884	48.2%	13,912,588	47.5%
Operating expenses:				
Selling and marketing	3,167,631	12.3%	3,601,964	12.3%
Depreciation and amortization	443,362	1.7%	417,866	1.4%
General and administrative	7,493,424	29.1%	8,487,403	29.0%
Research and development cost	196,408	0.8%	1,127,575	3.9%
Total operating expenses	<u>11,300,825</u>	43.9%	<u>13,634,808</u>	46.6%
Income from operations	1,123,059	4.4%	277,780	0.9%
Other income and (expenses)				
Gain (loss) on sale of assets	(74,273)	-0.3%	239	0.0%
Interest expense	(197,568)	-0.8%	(151,669)	-0.5%
Interest income	411,675	1.6%	834,911	2.9%
Gain (loss) on foreign currency exchange transactions	310,022	1.2%	(1,699,129)	-5.8%
Share of net loss from equity investment	(151,535)	-0.6%	(354,020)	-1.2%
Other income	132,637	0.5%	226,313	0.8%
Total other income (expenses)	<u>430,958</u>	1.7%	<u>(1,143,355)</u>	-3.9%
Net income (loss) before income taxes	1,554,017	6.0%	(865,575)	-3.0%
Income tax provision	(509,728)	-2.0%	(848,748)	-2.9%
Net income (loss)	1,044,289	4.1%	(1,714,323)	-5.9%
Non-controlling interest	(568,839)	-2.2%	472,351	1.6%
Net income (loss) attributable to NetSol	<u>\$ 475,450</u>	1.8%	<u>\$ (1,241,972)</u>	-4.2%

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
	2020	%	2019	%			
Net Revenues:	\$ 25,768,838	100.0%	\$ 29,262,435	100.0%	\$ (3,144,421)	\$ (349,176)	\$ (3,493,597)
Cost of revenues:	13,344,954	51.8%	15,349,847	52.5%	1,692,409	312,484	2,004,893
Gross profit	12,423,884	48.2%	13,912,588	47.5%	(1,452,012)	(36,692)	(1,488,704)
Operating expenses:	11,300,825	43.9%	13,634,808	46.6%	2,085,410	248,573	2,333,983
Income (loss) from operations	\$ 1,123,059	4.4%	\$ 277,780	0.9%	\$ 633,398	\$ 211,881	\$ 845,279

Net revenues for the six months ended December 31, 2020 and 2019 are broken out among the segments as follows:

	2020		2019	
	Revenue	%	Revenue	%
North America	\$ 1,829,434	7.1%	\$ 2,254,518	7.7%
Europe	5,878,097	22.8%	5,434,668	18.6%
Asia-Pacific	18,061,307	70.1%	21,573,249	73.7%
Total	\$ 25,768,838	100.0%	\$ 29,262,435	100.0%

Revenues

License fees

License fees for the six months ended December 31, 2020 were \$2,589,979 compared to \$2,640,922 for the six months ended December 31, 2019 reflecting a decrease of \$50,943 with a change in constant currency of \$197,338. During the six months ended December 31, 2020, we recognized approximately \$2,410,000 related to a new agreement with an existing tier one finance company in China to upgrade to our NFS Ascent[®] Retail and Wholesale platforms. During the six months ended December 31, 2019, we recognized approximately \$2,455,000 related to the DFS contract.

Subscription and support

Subscription and support fees for the six months ended December 31, 2020 were \$10,896,665 compared to \$9,711,112 for the six months ended December 31, 2019 reflecting an increase of \$1,185,553 with a change in constant currency of \$1,336,273. Subscription and support fees begin once a customer has “gone live” with our product. Subscription and support fees are recurring in nature, and we anticipate these fees to gradually increase as we implement both our NFS legacy products and NFS Ascent®.

Services

Services income for the six months ended December 31, 2020 was \$12,282,194 compared to \$16,770,044 for the six months ended December 31, 2019 reflecting a decrease of \$4,487,850 with a decrease in constant currency of \$4,142,999. The decrease in services revenue is due to the decrease in implementation revenue associated with customers who have gone live with our products. 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, 2020 was \$Nil compared to \$140,357 for the six months ended December 31, 2019 reflecting a decrease of \$140,357 with a change in constant currency of \$140,357. The decrease in related party service revenue is due to a decrease in service revenue related to services performed for WRLD3D.

Gross Profit

The gross profit was \$12,423,884, for the six months ended December 31, 2020 compared with \$13,912,588 for the six months ended December 31, 2019. This is a decrease of \$1,488,704 with a change in constant currency of \$1,452,012. The gross profit percentage for the six months ended December 31, 2020 increased to 48.2% from 47.5% for the six months ended December 31, 2019. The cost of sales was \$13,344,954 for the six months ended December 31, 2020 compared to \$15,349,847 for the six months ended December 31, 2019 for a decrease of \$2,004,893 and on a constant currency basis a decrease of \$1,692,409. As a percentage of sales, cost of sales decreased from 52.5% for the six months ended December 31, 2019 to 51.8% for the six months ended December 31, 2020.

Salaries and consultant fees increased by \$740,475 from \$9,080,836 for the six months ended December 31, 2019 to \$9,821,311 for the six months ended December 31, 2020 and on a constant currency basis increased \$961,914. The increase is due to annual salary raises and the hiring of additional personnel to fulfill delivery requirements. As a percentage of sales, salaries and consultant expense increased from 31.0% for the six months ended December 31, 2019 to 38.1% for the six months ended December 31, 2020.

Travel expense was \$262,926 for the six months ended December 31, 2020 compared to \$2,915,558 for the six months ended December 31, 2019 for a decrease of \$2,652,632 with a decrease in constant currency of \$2,660,808. The decrease in travel expense is due to the travel restrictions associated with the COVID-19 pandemic.

Depreciation and amortization expense decreased to \$1,420,998 compared to \$1,454,017 for the six months ended December 31, 2019 or a decrease of \$33,019 and on a constant currency basis an increase of \$29,474.

Operating Expenses

Operating expenses were \$11,300,825 for the six months ended December 31, 2020 compared to \$13,634,808, for the six months ended December 31, 2019 for a decrease of 17.1% or \$2,333,983 and on a constant currency basis a decrease of 15.3% or \$2,085,410. As a percentage of sales, it decreased from 46.6% to 43.9%. The decrease in operating expenses was primarily due to decreases in selling and marketing expenses, professional services, research and development and general and administrative expenses.

Selling and marketing expenses decreased \$434,333 or 12.1% and on a constant currency basis decreased \$385,481 or 10.7%. The decrease in selling and marketing expenses based on constant currency is due to a decrease in travel expenses and business development costs to market and sell NFS Ascent® globally.

General and administrative expenses were \$7,493,424 for the six months ended December 31, 2020 compared to \$8,487,403 for the six months ended December 31, 2019 for a decrease of \$993,979 or 11.7% and on a constant currency basis a decrease of \$799,075 or 9.4%. The decrease is primarily due to a reduction of approximately \$320,000 related to a withholding tax on dividends paid by NetSol PK, approximately \$173,000 of reduced travel expenses, approximately \$109,000 of reduced professional services and approximately \$102,000 reductions in rent expense.

Income/Loss from Operations

Income from operations was \$1,123,059 for the six months ended December 31, 2020 compared to \$277,780 for the six months ended December 31, 2019. This represents an increase of \$845,279 with an increase of \$633,398 on a constant currency basis for the six months ended December 31, 2020 compared with the six months ended December 31, 2019. As a percentage of sales, income from operations was 4.4% for the six months ended December 31, 2020 compared to 1.0% for the six months ended December 31, 2019.

Other Income and Expense

Other income was \$430,958 for the six months ended December 31, 2020 compared to other expense of \$1,143,355 for the six months ended December 31, 2019. This represents an increase of \$1,574,313 with an increase of \$1,527,205 on a constant currency basis. The increase is primarily due to the foreign currency exchange transactions. The majority of the contracts with NetSol PK are either in U.S. dollars or Euros; therefore, the currency fluctuations will lead to foreign currency exchange gains or losses depending on the value of the PKR compared to the U.S. dollar and the Euro. During the six months ended December 31, 2020, we recognized a gain of \$310,022 in foreign currency exchange transactions compared to a loss of \$1,699,129 for the six months ended December 31, 2019. During the six months ended December 31, 2020, the value of the U.S. dollar and the Euro increased 3.5% and 13.2%, respectively, compared to the PKR. During the six months ended December 31, 2019, the value of the U.S. dollar and the Euro decreased 5.3% and 6.3%, respectively, compared to the PKR.

Non-controlling Interest

For the six months ended December 31, 2020, the net income attributable to non-controlling interest was \$568,839, compared to a loss of \$472,351 for the six months ended December 31, 2019. The increase in non-controlling interest is primarily due to the increase in net income of NetSol PK.

Net Income / Loss attributable to NetSol

Net income was \$475,450 for the six months ended December 31, 2020 compared to a net loss of \$1,241,972 for the six months ended December 31, 2019. This is an increase of \$1,717,422 with an increase of \$1,437,716 on a constant currency basis, compared to the prior year. For the six months ended December 31, 2020, net income per share was \$0.04 for basic and diluted shares compared to a net loss of \$0.11 for basic and diluted shares for the six months ended December 31, 2019.

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 plus 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, 2020 and 2019 are as follows:

	For the Three Months Ended December 31, 2020	For the Three Months Ended December 31, 2019	For the Six Months Ended December 31, 2020	For the Six Months Ended December 31, 2019
Net Income (loss) attributable to NetSol	\$ (242,104)	\$ 585,975	\$ 475,450	\$ (1,241,972)
Non-controlling interest	162,916	(39,039)	568,839	(472,351)
Income taxes	245,434	610,510	509,728	848,748
Depreciation and amortization	935,321	949,831	1,864,360	1,871,883
Interest expense	94,241	88,006	197,568	151,669
Interest (income)	(210,854)	(435,682)	(411,675)	(834,911)
EBITDA	<u>\$ 984,954</u>	<u>\$ 1,759,601</u>	<u>\$ 3,204,270</u>	<u>\$ 323,066</u>
Add back:				
Non-cash stock-based compensation	74,169	164,292	165,164	328,585
Adjusted EBITDA, gross	<u>\$ 1,059,123</u>	<u>\$ 1,923,893</u>	<u>\$ 3,369,434</u>	<u>\$ 651,651</u>
Less non-controlling interest (a)	(441,853)	(346,644)	(1,140,697)	(155,409)
Adjusted EBITDA, net	<u><u>\$ 617,270</u></u>	<u><u>\$ 1,577,249</u></u>	<u><u>\$ 2,228,737</u></u>	<u><u>\$ 496,242</u></u>
Weighted Average number of shares outstanding				
Basic	11,580,030	11,724,606	11,683,631	11,694,423
Diluted	<u>11,580,030</u>	<u>11,724,606</u>	<u>11,683,631</u>	<u>11,694,423</u>
Basic adjusted EBITDA	<u>\$ 0.05</u>	<u>\$ 0.13</u>	<u>\$ 0.19</u>	<u>\$ 0.04</u>
Diluted adjusted EBITDA	<u><u>\$ 0.05</u></u>	<u><u>\$ 0.13</u></u>	<u><u>\$ 0.19</u></u>	<u><u>\$ 0.04</u></u>

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

Net Income (loss) attributable to non-controlling interest	\$ 162,916	\$ (39,039)	\$ 568,839	\$ (472,351)
Income Taxes	44,233	190,292	92,882	243,627
Depreciation and amortization	264,535	270,003	529,100	529,638
Interest expense	28,824	25,491	60,344	44,532
Interest (income)	(67,207)	(115,670)	(133,164)	(221,171)
EBITDA	<u>\$ 433,301</u>	<u>\$ 331,077</u>	<u>\$ 1,118,001</u>	<u>\$ 124,275</u>
Add back:				
Non-cash stock-based compensation	8,552	15,567	22,696	31,134
Adjusted EBITDA of non-controlling interest	<u><u>\$ 441,853</u></u>	<u><u>\$ 346,644</u></u>	<u><u>\$ 1,140,697</u></u>	<u><u>\$ 155,409</u></u>

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was \$32,003,647 at December 31, 2020, compared to \$20,166,830 at June 30, 2020.

Net cash provided by operating activities was \$12,650,844 for the six months ended December 31, 2020 compared to \$3,792,927 for the six months ended December 31, 2019. At December 31, 2020, we had current assets of \$52,903,246 and current liabilities of \$21,722,829. We had accounts receivable of \$5,213,604 at December 31, 2020 compared to \$11,414,257 at June 30, 2020. We had revenues in excess of billings of \$13,646,069 at December 31, 2020 compared to \$18,506,733 at June 30, 2020 of which \$356,059 and \$1,300,289 is shown as long term as of December 31, 2020 and June 30, 2020, respectively. The long-term portion was discounted by \$20,815 and \$41,286 at December 31, 2020 and June 30, 2020, respectively, using the discounted cash flow method with an interest rate of 4.65% and 4.35%, respectively. During the six months ended December 31, 2020, our revenues in excess of billings were reclassified to accounts receivable pursuant to billing requirements detailed in each contract. The combined totals for accounts receivable and revenues in excess of billings decreased by \$11,061,317 from \$29,920,990 at June 30, 2020 to \$18,859,673 at December 31, 2020. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to \$6,327,192 and \$10,383,572, respectively at December 31, 2020. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to \$5,680,837 and \$9,139,561, respectively at June 30, 2020.

The average days sales outstanding for the six months ended December 31, 2020 and 2019 were 174 and 184 days, respectively, for each period. The days sales outstanding have been calculated by taking into consideration the average combined balances of accounts receivable and revenues in excess of billings.

Net cash used in investing activities was \$1,219,701 for the six months ended December 31, 2020, compared to \$1,288,475 for the six months ended December 31, 2019. We had purchases of property and equipment of \$1,249,895 compared to \$785,999 for the six months ended December 31, 2019. For the six months ended December 31, 2020 and 2019, we invested \$Nil and \$535,000, respectively, in a short-term convertible note receivable from WRLD3D. For the six months ended December 31, 2020 and 2019, we invested \$93,000 and \$Nil, respectively, in DriveMate.

Net cash used in financing activities was \$862,685 for the six months ended December 31, 2020, compared to \$62,845 provided by financing activities, for the six months ended December 31, 2019. For the six months ended December 31, 2020, we purchased 446,996 shares of our own stock for \$1,392,671 compared to \$Nil for the same period last year. The six months ended December 31, 2020 included the cash inflow of \$705,338 from bank proceeds compared to \$2,074,341 for the same period last year. During the six months ended December 31, 2020, we had net payments for bank loans and finance leases of \$175,352 compared to \$102,499 for the six months ended December 31, 2019. We are operating in various geographical regions of the world through our various subsidiaries. Those subsidiaries have financial arrangements from various financial institutions to meet both their short and long-term funding requirements. These loans will become due at different maturity dates as described in Note 15 of the financial statements. We are in compliance with the covenants of the financial arrangements and there is no default, which may lead to early payment of these obligations. We anticipate paying back all these obligations on their respective due dates from its own sources.

We typically fund the cash requirements for our operations in the U.S. through our license, services, and subscription and support agreements, intercompany charges for corporate services, and through the exercise of options and warrants. As of December 31, 2020, we had approximately \$32.0 million of cash, cash equivalents and marketable securities of which approximately \$28.9 million is held by our foreign subsidiaries. As of June 30, 2020, we had approximately \$20.2 million of cash, cash equivalents and marketable securities of which approximately \$18.2 million is held by our foreign subsidiaries.

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

As a growing company, we have on-going capital expenditure needs based on our short term and long-term business plans. Although our requirements for capital expenses vary from time to time, for the next 12 months, we anticipate needing \$2 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 (\$410,959) which requires that the aggregate amount of invoiced trade debtors (net of provisions for bad and doubtful debts and excluding intra-group debtors) of NTE, not exceeding 90 days old, will not be less than an amount equal to 200% of the facility. The Pakistani subsidiary, NetSol PK has an approved facility for export refinance from Askari Bank Limited amounting to Rupees 500 million (\$3,119,541) and a running finance facility of Rupees 75 million (\$467,931). NetSol PK has an approved facility for export refinance from another Habib Metro Bank Limited amounting to Rupees 900 million (\$5,615,173). These facilities require 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. 380 million (\$2,370,850) and a running finance facility of Rs. 120 million (\$748,690) 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 condensed consolidated financial statements are prepared applying certain critical accounting policies. The SEC defines “critical accounting policies” as those that require application of management’s most difficult, subjective, or complex judgments. Critical accounting policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect our reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on our future financial condition and results of operations. Our financial statements are prepared in accordance with U.S. GAAP, and they conform to general practices in our industry. We apply critical accounting policies consistently from period to period and intend that any change in methodology occur in an appropriate manner. There have been no significant changes to our accounting policies and estimates as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

RECENT ACCOUNTING PRONOUNCEMENTS

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

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the three months ended December 31, 2020, that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)).

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

None.

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

The repurchases provided in the table below were made through the quarter ended December 31, 2020:

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-20	21,940	\$ 3.02	21,940	-
Aug-20	125,112	\$ 3.18	147,052	-
Oct-20	102,023	\$ 2.94	249,075	-
Nov-20	124,715	\$ 3.00	373,790	-
Dec-20	73,206	\$ 3.47	446,996	-
Total	<u>446,996</u>		<u>446,996</u>	<u>641,025</u>

(1) The Board of Directors approved a repurchase of shares up to \$2,000,000 on July 30, 2020. Based on the share price reported on NASDAQ on July 30, 2020, the maximum number of shares that could be purchased was 641,205. The actual maximum number of shares will vary depending on the actual price paid per share purchased. The Board of Directors agreed to the extension of the repurchasing plan through June 28, 2021.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURES

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

NETSOL TECHNOLOGIES, INC.

Date: February 16, 2021

/s/ Najeed U. Ghauri
NAJEEB U. GHAURI
Chief Executive Officer

Date: February 16, 2021

/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 to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Najeeb Ghauri, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q for the quarter ended December 31, 2020 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 quarterly 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 16, 2021

/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 quarterly report on Form 10-Q for the quarter ended December 31, 2020 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 quarterly 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 16, 2021

/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 Quarterly Report of NetSol Technologies, Inc. on Form 10-Q for the period ending December 31, 2020, 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 16, 2021

/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 Quarterly Report of NetSol Technologies, Inc. on Form 10-Q for the period ending December 31, 2020, 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 16, 2021

/s/ Roger K. Almond

Roger K. Almond
Chief Financial Officer
Principal Accounting Officer
