

**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 March 31, 2023

☐ 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.)

16000 Ventura Blvd., Suite 770, Encino, CA 91436

(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:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
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 12,238,042 shares issued and 11,299,011 outstanding of its \$.01 par value Common Stock and no Preferred Stock outstanding as of May 05, 2023.

NETSOL TECHNOLOGIES, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

(Unaudited)

	As of March 31, 2023	As of June 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,259,497	\$ 23,963,797
Accounts receivable, net of allowance of \$232,004 and \$166,231	9,223,484	8,669,202
Revenues in excess of billings, net of allowance of \$43,334 and \$136,976	13,741,884	14,571,776
Other current assets	2,599,532	2,223,361
Total current assets	40,824,397	49,428,136
Revenues in excess of billings, net - long term	-	853,601
Property and equipment, net	6,871,036	9,382,624
Right of use of assets - operating leases	1,102,729	969,163
Long term investment	1,066,878	1,059,368
Other assets	425	25,546
Intangible assets, net	381,878	1,587,670
Goodwill	9,302,524	9,302,524
Total assets	\$ 59,549,867	\$ 72,608,632
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,098,206	\$ 6,813,541
Current portion of loans and obligations under finance leases	5,969,044	8,567,145
Current portion of operating lease obligations	421,223	548,678
Unearned revenue	4,167,655	4,901,562
Total current liabilities	17,656,128	20,830,926
Loans and obligations under finance leases; less current maturities	215,243	476,223
Operating lease obligations; less current maturities	651,443	447,260
Total liabilities	18,522,814	21,754,409
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 500,000 shares authorized;	-	-
Common stock, \$.01 par value; 14,500,000 shares authorized; 12,238,042 shares issued and 11,299,011 outstanding as of March 31, 2023 12,196,570 shares issued and 11,257,539 outstanding as of June 30, 2022	122,382	121,966
Additional paid-in-capital	128,536,955	128,218,247
Treasury stock (at cost, 939,031 shares as of March 31, 2023 and June 30, 2022)	(3,920,856)	(3,920,856)
Accumulated deficit	(39,821,470)	(39,652,438)
Other comprehensive loss	(47,192,994)	(39,363,085)
Total NetSol stockholders' equity	37,724,017	45,403,834
Non-controlling interest	3,303,036	5,450,389
Total stockholders' equity	41,027,053	50,854,223
Total liabilities and stockholders' equity	\$ 59,549,867	\$ 72,608,632

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 March 31,		For the Nine Months Ended March 31,	
	2023	2022	2023	2022
Net Revenues:				
License fees	\$ 1,982,985	\$ 1,620,827	\$ 2,248,829	\$ 3,586,874
Subscription and support	6,656,082	6,554,540	19,175,585	22,159,798
Services	4,867,322	6,634,459	17,178,452	17,956,877
Total net revenues	13,506,389	14,809,826	38,602,866	43,703,549
Cost of revenues:				
Salaries and consultants	6,453,814	6,756,898	19,482,720	18,081,225
Travel	724,431	256,730	1,752,074	753,698
Depreciation and amortization	602,829	741,587	1,950,156	2,236,190
Other	1,020,286	1,220,041	3,318,427	3,712,256
Total cost of revenues	8,801,360	8,975,256	26,503,377	24,783,369
Gross profit	4,705,029	5,834,570	12,099,489	18,920,180
Operating expenses:				
Selling and marketing	1,643,853	2,074,873	5,413,492	5,502,028
Depreciation and amortization	180,137	206,346	569,313	633,481
General and administrative	3,509,212	3,841,655	10,745,031	11,548,097
Research and development cost	302,262	251,001	1,244,793	761,621
Total operating expenses	5,635,464	6,373,875	17,972,629	18,445,227
Income (loss) from operations	(930,435)	(539,305)	(5,873,140)	474,953
Other income and (expenses)				
Gain (loss) on sale of assets	(84,838)	8,770	(56,494)	(181,955)
Interest expense	(188,137)	(85,916)	(512,110)	(277,737)
Interest income	263,794	364,161	1,005,557	1,123,547
Gain on foreign currency exchange transactions	5,385,591	499,516	7,358,519	2,684,680
Share of net loss from equity investment	2,377	(76,798)	7,510	(317,581)
Other income (expense)	21,897	(30,296)	113,877	(7,599)
Total other income (expenses)	5,400,684	679,437	7,916,859	3,023,355
Net income before income taxes	4,470,249	140,132	2,043,719	3,498,308
Income tax provision	(227,718)	(157,604)	(641,122)	(526,737)
Net income (loss)	4,242,531	(17,472)	1,402,597	2,971,571
Non-controlling interest	(1,697,908)	(260,998)	(1,571,629)	(1,655,287)
Net income (loss) attributable to NetSol	\$ 2,544,623	\$ (278,470)	\$ (169,032)	\$ 1,316,284
Net income (loss) per share:				
Net income (loss) per common share				
Basic	\$ 0.23	\$ (0.02)	\$ (0.01)	\$ 0.12
Diluted	\$ 0.23	\$ (0.02)	\$ (0.01)	\$ 0.12
Weighted average number of shares outstanding				
Basic	11,283,954	11,249,606	11,270,466	11,249,449
Diluted	11,283,954	11,249,606	11,270,466	11,249,449

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 March 31,		For the Nine Months Ended March 31,	
	2023	2022	2023	2022
Net income (loss)	\$ 2,544,623	\$ (278,470)	\$ (169,032)	\$ 1,316,284
Other comprehensive income (loss):				
Translation adjustment	(7,628,982)	(2,269,229)	(11,428,326)	(7,020,620)
Translation adjustment attributable to non-controlling interest	2,447,328	464,452	3,598,417	2,148,695
Net translation adjustment	(5,181,654)	(1,804,777)	(7,829,909)	(4,871,925)
Comprehensive income (loss) attributable to NetSol	<u>\$ (2,637,031)</u>	<u>\$ (2,083,247)</u>	<u>\$ (7,998,941)</u>	<u>\$ (3,555,641)</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 March 31, 2023 is provided below:

	Common Stock		Additional	Treasury	Accumulated	Other	Non	Total
	Shares	Amount	Paid-in	Shares	Deficit	Compre- hensive Loss	Controlling Interest	Stockholders' Equity
Balance at December 31, 2022	12,222,985	\$ 122,231	\$ 128,484,714	\$ (3,920,856)	\$ (42,366,093)	\$ (42,011,340)	\$ 4,052,456	\$ 44,361,112
Common stock issued for: Services	15,057	151	39,599	-	-	-	-	39,750
Fair value of subsidiary options issued	-	-	12,642	-	-	-	-	12,642
Foreign currency translation adjustment	-	-	-	-	-	(5,181,654)	(2,447,328)	(7,628,982)
Net income (loss) for the year	-	-	-	-	2,544,623	-	1,697,908	4,242,531
Balance at March 31, 2023	<u>12,238,042</u>	<u>\$ 122,382</u>	<u>\$ 128,536,955</u>	<u>\$ (3,920,856)</u>	<u>\$ (39,821,470)</u>	<u>\$ (47,192,994)</u>	<u>\$ 3,303,036</u>	<u>\$ 41,027,053</u>

A statement of the changes in equity for the three months ended December 31, 2022 is provided below:

	Common Stock		Additional	Treasury	Accumulated	Other	Non	Total
	Shares	Amount	Paid-in	Shares	Deficit	Compre- hensive Loss	Controlling Interest	Stockholders' Equity
Balance at September 30, 2022	12,209,230	\$ 122,093	\$ 128,420,519	\$ (3,920,856)	\$ (40,273,167)	\$ (42,281,135)	\$ 4,279,113	\$ 46,346,567
Common stock issued for: Services	13,755	138	39,612	-	-	-	-	39,750
Fair value of subsidiary options issued	-	-	24,583	-	-	-	-	24,583
Foreign currency translation adjustment	-	-	-	-	-	269,795	82,380	352,175
Net income (loss) for the year	-	-	-	-	(2,092,926)	-	(309,037)	(2,401,963)
Balance at December 31, 2022	<u>12,222,985</u>	<u>\$ 122,231</u>	<u>\$ 128,484,714</u>	<u>\$ (3,920,856)</u>	<u>\$ (42,366,093)</u>	<u>\$ (42,011,340)</u>	<u>\$ 4,052,456</u>	<u>\$ 44,361,112</u>

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

A statement of the changes in equity for the three months ended September 30, 2022 is provided below:

	Common Stock		Additional	Treasury	Accumulated	Other	Non	Total
	Shares	Amount	Paid-in	Shares	Deficit	Compre- hensive Loss	Controlling Interest	Stockholders' Equity
Balance at June 30, 2022	12,196,570	\$ 121,966	\$ 128,218,247	\$ (3,920,856)	\$ (39,652,438)	\$ (39,363,085)	\$ 5,450,389	\$ 50,854,223
Common stock issued for: Services	12,660	127	39,623	-	-	-	-	39,750
Adjustment in APIC for change in subsidiary shares to non-controlling interest	-	-	120,565	-	-	-	(120,565)	-
Fair value of subsidiary options issued	-	-	42,084	-	-	-	-	42,084
Foreign currency translation adjustment	-	-	-	-	-	(2,918,050)	(1,233,469)	(4,151,519)
Net income (loss) for the year	-	-	-	-	(620,729)	-	182,758	(437,971)
Balance at September 30, 2022	<u>12,209,230</u>	<u>\$ 122,093</u>	<u>\$ 128,420,519</u>	<u>\$ (3,920,856)</u>	<u>\$ (40,273,167)</u>	<u>\$ (42,281,135)</u>	<u>\$ 4,279,113</u>	<u>\$ 46,346,567</u>

A statement of the changes in equity for the three months ended March 31, 2022 is provided below:

	Common Stock		Additional	Treasury	Accumulated	Other	Non	Total
	Shares	Amount	Paid-in	Shares	Deficit	Compre- hensive Loss	Controlling Interest	Stockholders' Equity
Balance at December 31, 2021	12,186,070	\$ 121,861	\$ 129,042,021	\$ (3,920,856)	\$ (37,206,528)	\$ (34,935,629)	\$ 6,925,352	\$ 60,026,221
Common stock issued for: Services	5,500	55	22,170	-	-	-	-	22,225
Fair value of subsidiary options issued	-	-	20,595	-	-	-	-	20,595
Foreign currency translation adjustment	-	-	-	-	-	(1,804,777)	(464,452)	(2,269,229)
Net income (loss)	-	-	-	-	(278,470)	-	260,998	(17,472)
Balance at March 31, 2022	<u>12,191,570</u>	<u>\$ 121,916</u>	<u>\$ 129,084,786</u>	<u>\$ (3,920,856)</u>	<u>\$ (37,484,998)</u>	<u>\$ (36,740,406)</u>	<u>\$ 6,721,898</u>	<u>\$ 57,782,340</u>

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, 2021 is provided below:

	Common Stock		Additional	Treasury	Accumulated	Other	Non	Total
	Shares	Amount	Paid-in	Shares	Deficit	Compre- hensive Loss	Controlling Interest	Stockholders' Equity
Balance at September 30, 2021	12,183,570	\$ 121,836	\$ 129,030,982	\$ (3,920,856)	\$ (38,613,313)	\$ (34,013,886)	\$ 6,438,841	\$ 59,043,604
Common stock issued for: Services	2,500	25	9,875	-	-	-	-	9,900
Fair value of subsidiary options issued	-	-	1,164	-	-	-	-	1,164
Foreign currency translation adjustment	-	-	-	-	-	(921,743)	(545,252)	(1,466,995)
Net income for the year	-	-	-	-	1,406,785	-	1,031,763	2,438,548
Balance at December 31, 2021	<u>12,186,070</u>	<u>\$ 121,861</u>	<u>\$ 129,042,021</u>	<u>\$ (3,920,856)</u>	<u>\$ (37,206,528)</u>	<u>\$ (34,935,629)</u>	<u>\$ 6,925,352</u>	<u>\$ 60,026,221</u>

A statement of the changes in equity for the three months ended September 30, 2021 is provided below:

	Common Stock		Additional	Treasury	Accumulated	Other	Non	Total
	Shares	Amount	Paid-in	Shares	Deficit	Compre- hensive Loss	Controlling Interest	Stockholders' Equity
Balance at June 30, 2021	12,181,585	\$ 121,816	\$ 129,018,826	\$ (3,820,750)	\$ (38,801,282)	\$ (31,868,481)	\$ 7,215,473	\$ 61,865,602
Subsidiary common stock issued for: - Services	-	-	167	-	-	-	(167)	-
Common stock issued for: Services	1,985	20	11,989	-	-	-	-	12,009
Purchase of treasury shares	-	-	-	(100,106)	-	-	-	(100,106)
Foreign currency translation adjustment	-	-	-	-	-	(2,145,405)	(1,138,991)	(3,284,396)
Net income	-	-	-	-	187,969	-	362,526	550,495
Balance at September 30, 2021	<u>12,183,570</u>	<u>\$ 121,836</u>	<u>\$ 129,030,982</u>	<u>\$ (3,920,856)</u>	<u>\$ (38,613,313)</u>	<u>\$ (34,013,886)</u>	<u>\$ 6,438,841</u>	<u>\$ 59,043,604</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 Nine Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 1,402,597	\$ 2,971,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,519,469	2,869,671
Provision for bad debts	7,648	6,897
Share of net (gain) loss from investment under equity method	(7,510)	317,581
(Gain) loss on sale of assets	56,494	181,955
Stock based compensation	198,559	78,225
Changes in operating assets and liabilities:		
Accounts receivable	(1,855,899)	(3,404,247)
Revenues in excess of billing	240,324	(385,971)
Other current assets	(621,731)	53,173
Accounts payable and accrued expenses	1,321,289	14,918
Unearned revenue	(696,621)	2,822,178
Net cash provided by operating activities	2,564,619	5,525,951
Cash flows from investing activities:		
Purchases of property and equipment	(1,575,059)	(1,680,856)
Sales of property and equipment	153,402	321,251
Net cash used in investing activities	(1,421,657)	(1,359,605)
Cash flows from financing activities:		
Purchase of treasury stock	-	(100,106)
Proceeds from bank loans	270,292	312,467
Payments on finance lease obligations and loans - net	(787,641)	(1,045,464)
Net cash used in financing activities	(517,349)	(833,103)
Effect of exchange rate changes	(9,329,913)	(6,465,085)
Net decrease in cash and cash equivalents	(8,704,300)	(3,131,842)
Cash and cash equivalents at beginning of the period	23,963,797	33,705,154
Cash and cash equivalents at end of period	\$ 15,259,497	\$ 30,573,312

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 Nine Months Ended March 31,	
		2023	2022
SUPPLEMENTAL DISCLOSURES:			
Cash paid during the period for:			
Interest	\$	378,720	\$ 332,239
Taxes	\$	706,658	\$ 694,161
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Shares issued to vendor for services received	\$	-	\$ 19,525

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

NETSOL TECHNOLOGIES, INC.
Notes to Condensed Consolidated Financial Statements
March 31, 2023
(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, 2022. 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")
Tianjin NuoJinZhiCheng Co., Ltd ("Tianjin")
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 Ascent Middle East Computer Equipment Trading LLC ("Namecet")
NetSol Technologies Thailand Limited ("NetSol Thai")
Otoz, Inc. ("Otoz")
Otoz (Thailand) Limited ("Otoz Thai")

NETSOL TECHNOLOGIES, INC.
Notes to Condensed Consolidated Financial Statements
March 31, 2023
(Unaudited)

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 (\$72,780) in each bank and in the UK for GBP 85,000 (\$104,938) in each bank. The Company maintains three bank accounts in China and nine bank accounts in the UK. As of March 31, 2023, and June 30, 2022, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately \$13,089,660 and \$22,758,963, respectively. The Company has not experienced any losses in such accounts.

The Company's operations are carried out globally. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments of each country and by the general state of the country's economy. The Company's operations in each foreign country are subject to specific considerations and significant risks not typically associated with companies in economically developed nations. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Fair Value of Financial Instruments

The Company applies the provisions of 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.

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The Company did not have any financial assets that were measured at fair value on a recurring basis at March 31, 2023.

The Company's financial assets that were measured at fair value on a recurring basis as of June 30, 2022, were as follows:

	Level 1	Level 2	Level 3	Total Assets
Revenues in excess of billings - long term	\$ -	\$ -	\$ 853,601	\$ 853,601
Total	\$ -	\$ -	\$ 853,601	\$ 853,601

The reconciliation from June 30, 2022 to March 31, 2023 is as follows:

	Revenues in excess of billings - long term	Fair value discount	Total
Balance at June 30, 2022	\$ 881,940	\$ (28,339)	\$ 853,601
Amortization during the period	-	28,029	28,029
Transfers to short term	(890,794)	-	(890,794)
Effect of Translation Adjustment	8,854	310	9,164
Balance at March 31, 2023	\$ -	\$ -	\$ -

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:

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which requires contract assets and contract liabilities acquired in a business combination to be recognized in accordance with Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, as if the acquirer had originated the contracts. ASU 2021-08 is effective for annual periods beginning after December 15, 2022, and interim periods within those years, with early adoption permitted. The Company does not expect the standard to have a material effect on its consolidated financial statements.

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

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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 post contract support, of its enterprise software solutions for the lease and finance industry. The Company offers its software using the same underlying technology via two models: a traditional on-premises licensing model and a subscription model. The on-premises model involves the sale or license of software on a perpetual basis to customers who take possession of the software and install and maintain the software on their own hardware. Under the subscription delivery model, the Company provides access to its software on a hosted basis as a service and customers generally do not have the contractual right to take possession of the software.

Non-Core Revenue

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

Performance Obligations

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

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

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Subscription

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

Post Contract Support

Revenue from support services and product updates, referred to as subscription and 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 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 March 31,		For the Nine Months Ended March 31,	
	2023	2022	2023	2022
Core:				
License	\$ 1,982,985	\$ 1,620,827	\$ 2,248,829	\$ 3,586,874
Subscription and support	6,656,082	6,554,540	19,175,585	22,159,798
Services	3,869,444	5,416,635	14,109,271	14,140,429
Total core revenue, net	12,508,511	13,592,002	35,533,685	39,887,101
Non-Core:				
Services	997,878	1,217,824	3,069,181	3,816,448
Total non-core revenue, net	997,878	1,217,824	3,069,181	3,816,448
Total net revenue	\$ 13,506,389	\$ 14,809,826	\$ 38,602,866	\$ 43,703,549

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 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 recognizes 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 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 (unearned 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 unearned 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 unearned revenue are as follows:

	As of March 31, 2023	As of June 30, 2022
Revenues in excess of billings	\$ 13,741,884	\$ 15,425,377
Unearned revenue	\$ 4,167,655	\$ 4,901,562

During the three and nine months ended March 31, 2023, the Company recognized revenue of \$484,239 and \$3,268,811 that was included in the unearned revenue balance at the beginning of the period. All other activity in unearned 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 \$33.6MM as of March 31, 2023, of which the Company estimates to recognize approximately \$15.2MM in revenue over the next 12 months and the remainder over an estimated 3 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.

Unearned 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 unearned 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. The Company has applied the following practical expedients:

- 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. During the three and nine months ended March 31, 2023 and 2022, there were no outstanding dilutive instruments.

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, NetSol Thai and Otoz Thai use the Thai Baht; Australia uses the Australian dollar; Namecet uses AED; and NetSol Beijing and Tianjin use the Chinese Yuan as the functional currencies. NetSol Technologies, Inc., and its subsidiaries, NTA and Otoz, 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 \$47,192,994 and \$39,363,085 as of March 31, 2023 and June 30, 2022, respectively. During the three and nine months ended March 31, 2023, comprehensive income (loss) in the consolidated statements of comprehensive income (loss) included a translation loss attributable to NetSol of \$(5,181,654) and \$(7,829,909), respectively. During the three and nine months ended March 31, 2022, comprehensive income (loss) in the consolidated statements of comprehensive income (loss) included a translation loss attributable to NetSol of \$(1,804,777) and \$(4,871,925), respectively.

NOTE 6 – MAJOR CUSTOMERS

During the nine months ended March 31, 2023, revenues from Daimler Financial Services ("DFS") and BMW Financial ("BMW") were \$10,824,636, and \$3,208,649, respectively representing 28.0% and 8.3%, respectively of revenues. During the nine months ended March 31, 2022, revenues from Daimler Financial Services ("DFS") and BMW Financial ("BMW") were \$15,692,171 and \$3,203,536, respectively representing 35.9% and 7.3%, respectively of revenues. The revenue from these customers is shown in the Asia – Pacific segment.

Accounts receivable from DFS and BMW at March 31, 2023, were \$2,284,979 and \$1,104,698, respectively. Accounts receivable at June 30, 2022, were \$2,005,463 and \$2,498,645, respectively. Revenues in excess of billings at March 31, 2023 were \$2,016,970 and \$2,002,579 for DFS and BMW, respectively. Revenues in excess of billings at June 30, 2022, were \$365,863 and \$2,199,381 for DFS and BMW, respectively.

NOTE 7 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of March 31, 2023	As of June 30, 2022
Prepaid Expenses	\$ 1,438,244	\$ 1,389,370
Advance Income Tax	218,352	202,783
Employee Advances	64,454	87,627
Security Deposits	241,160	236,909
Other Receivables	188,157	21,581
Other Assets	449,165	285,091
Net Balance	<u>\$ 2,599,532</u>	<u>\$ 2,223,361</u>

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NOTE 8 – REVENUES IN EXCESS OF BILLINGS – LONG TERM

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

	As of March 31, 2023	As of June 30, 2022
Revenues in excess of billings - long term	\$ -	\$ 881,940
Present value discount	-	(28,339)
Net Balance	<u>\$ -</u>	<u>\$ 853,601</u>

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 nine months ended March 31, 2023, the Company accreted \$9,372 and \$28,029, respectively. During the three and nine months ended March 31, 2022, the Company accreted \$9,546 and \$28,587, respectively, which was recorded in interest income for that period. The Company used the discounted cash flow method with interest rates ranging from 4.65% to 6.25%.

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	As of March 31, 2023	As of June 30, 2022
Office Furniture and Equipment	\$ 2,671,137	\$ 3,021,586
Computer Equipment	9,023,276	11,388,856
Assets Under Capital Leases	47,112	305,081
Building	3,537,674	4,818,650
Land	896,086	1,237,965
Autos	1,920,072	2,503,990
Improvements	212,431	175,560
Subtotal	18,307,788	23,451,688
Accumulated Depreciation	(11,436,752)	(14,069,064)
Property and Equipment, Net	<u>\$ 6,871,036</u>	<u>\$ 9,382,624</u>

For the three and nine months ended March 31, 2023, depreciation expense totaled \$507,314 and \$1,598,325, respectively. Of these amounts, \$327,177 and \$1,029,012, respectively, are reflected in cost of revenues. For the three and nine months ended March 31, 2022, depreciation expense was \$540,822 and \$1,608,007, respectively. Of these amounts, \$334,476 and \$974,526, respectively, are reflected in cost of revenues.

Following is a summary of fixed assets held under finance leases as of March 31, 2023 and June 30, 2022:

	As of March 31, 2023	As of June 30, 2022
Vehicles	\$ 47,112	\$ 305,081
Total	47,112	305,081
Less: Accumulated Depreciation - Net	(15,218)	(145,658)
	<u>\$ 31,894</u>	<u>\$ 159,423</u>

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Finance lease term and discount rate were as follows:

	As of March 31, 2023	As of June 30, 2022
Weighted average remaining lease term - Finance leases	1.42 Years	2.39 Years
Weighted average discount rate - Finance leases	16.4%	12.5%

NOTE 10 - 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 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.

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Supplemental balance sheet information related to leases was as follows:

	As of March 31, 2023	As of June 30, 2022
Assets		
Operating lease assets, net	\$ 1,102,729	\$ 969,163
Liabilities		
Current		
Operating	\$ 421,223	\$ 548,678
Non-current		
Operating	651,443	447,260
Total Lease Liabilities	\$ 1,072,666	\$ 995,938

The components of lease cost were as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2023	2022	2023	2022
Amortization of finance lease assets	\$ 7,706	\$ 16,273	\$ 13,701	\$ 59,201
Interest on finance lease obligation	1,043	5,632	4,402	13,780
Operating lease cost	115,392	137,270	346,993	518,048
Short term lease cost	39,356	128,008	143,978	166,789
Sub lease income	(8,099)	(8,907)	(23,697)	(27,012)
Total lease cost	\$ 155,398	\$ 278,276	\$ 485,377	\$ 730,806

Lease term and discount rate were as follows:

	As of March 31, 2023	As of June 30, 2022
Weighted average remaining lease term - Operating leases	3.39 Years	3.34 Years
Weighted average discount rate - Operating leases	3.3%	4.2%

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

		For the Nine Months Ended March 31	
		2023	2022
Operating cash flows related to operating leases	\$	358,778	\$ 504,447
Operating cash flows related to finance leases	\$	4,472	\$ 3,553
Financing cash flows related finance leases	\$	24,362	\$ 55,399

Maturities of operating lease liabilities were as follows as of March 31, 2023:

	Amount
Within year 1	\$ 450,939
Within year 2	367,359
Within year 3	213,770
Within year 4	92,657
Within year 5	465
Thereafter	582
Total Lease Payments	1,125,772
Less: Imputed interest	(53,106)
Present Value of lease liabilities	1,072,666
Less: Current portion	(421,223)
Non-Current portion	\$ 651,443

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 are currently on a month-by-month basis. All leases are considered operating leases. There are no rights to purchase the premises and no residual value guarantees. For the three and nine months ended March 31, 2023, the Company received lease income of \$8,099 and \$23,697, respectively. For the three and nine months ended March 31, 2022, the Company received lease income of \$8,907 and \$27,012, respectively.

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NOTE 11 – LONG TERM INVESTMENT

Drivemate – Related Party

The Company and Drivemate Co., Ltd. (“Drivemate”) entered into a subscription agreement on April 25, 2019, (“Drivemate Agreement”) whereby the Company purchased an equity interest of 30% in Drivemate. Per the Drivemate Agreement, the Company purchased 5,469 preferred shares for \$1,800,000 consisting of \$500,000 cash to be paid over a two-year period and \$1,300,000 to be provided in services. The Company has paid the \$500,000 in cash and has provided services of \$1,300,000. Pursuant to the agreement, the number of shares to be issued is adjusted as necessary to result in an equity ownership equal to 30% of the issued and outstanding shares at the final payment date. As of March 31, 2023, the Company has been issued 8,178 shares equal to 30% 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 owns 30% of Drivemate; therefore, the Company accounts for the investment using the equity method of accounting.

Under the equity method of accounting, the Company recorded its share of net income of \$2,377 and \$7,510 for the three and nine months ended March 31, 2023, respectively and the Company recorded its share of net income of \$4,712 and net loss of \$54,193 for the three and nine months ended March 31, 2022, respectively.

The following table reflects the above investments at March 31, 2023 and June 30, 2022.

	As of March 31, 2023	As of June 30, 2022
Gross investment	\$ 1,800,000	\$ 1,800,000
Cumulative net loss on investment	(733,122)	(740,632)
Net investment	<u>\$ 1,066,878</u>	<u>\$ 1,059,368</u>

NOTE 12 - INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of March 31, 2023	As of June 30, 2022
Product Licenses - Cost	\$ 47,244,997	\$ 47,244,997
Effect of Translation Adjustment	(24,664,606)	(19,914,206)
Accumulated Amortization	(22,198,513)	(25,743,121)
Net Balance	<u>\$ 381,878</u>	<u>\$ 1,587,670</u>

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 \$381,878 will be amortized over one year. Amortization expense for the three and nine months ended March 31, 2023, was \$275,652 and \$921,144, respectively. Amortization expense for the three and nine months ended March 31, 2022 was \$407,111 and \$1,261,664, respectively.

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NOTE 13 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of March 31, 2023	As of June 30, 2022
Accounts Payable	\$ 987,963	\$ 1,175,527
Accrued Liabilities	4,102,715	3,507,415
Accrued Payroll	1,182,049	1,397,605
Accrued Payroll Taxes	150,020	153,416
Taxes Payable	325,586	328,755
Other Payable	349,873	250,823
Total	\$ 7,098,206	\$ 6,813,541

NOTE 14 – DEBTS

Notes payable and finance leases consisted of the following:

Name		As of March 31, 2023		
		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	\$ 179,887	\$ 179,887	\$ -
Bank Overdraft Facility	(2)	-	-	-
Term Finance Facility	(3)	-	-	-
Loan Payable Bank - Export Refinance	(4)	1,762,363	1,762,363	-
Loan Payable Bank - Running Finance	(5)	-	-	-
Loan Payable Bank - Export Refinance II	(6)	1,339,396	1,339,396	-
Loan Payable Bank - Export Refinance III	(7)	2,467,308	2,467,308	-
Sale and Leaseback Financing	(8)	358,939	149,396	209,543
Term Finance Facility	(9)	17,773	17,773	-
Insurance Financing	(10)	22,594	22,594	-
		6,148,260	5,938,717	209,543
Subsidiary Finance Leases	(11)	36,027	30,327	5,700
		\$ 6,184,287	\$ 5,969,044	\$ 215,243

Name		As of June 30, 2022		
		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	\$ 89,552	\$ 89,552	\$ -
Bank Overdraft Facility	(2)	-	-	-
Term Finance Facility	(3)	423,101	423,101	-
Loan Payable Bank - Export Refinance	(4)	2,434,749	2,434,749	-
Loan Payable Bank - Running Finance	(5)	-	-	-
Loan Payable Bank - Export Refinance II	(6)	1,850,409	1,850,409	-
Loan Payable Bank - Export Refinance III	(7)	3,408,648	3,408,648	-
Sale and Leaseback Financing	(8)	619,108	189,226	429,882
Term Finance Facility	(9)	31,204	18,339	12,865
Insurance Financing	(10)	118,026	118,026	-
		8,974,797	8,532,050	442,747
Subsidiary Finance Leases	(11)	68,571	35,095	33,476
		\$ 9,043,368	\$ 8,567,145	\$ 476,223

- (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 7.9% and 5.0% to 7.0% as of March 31, 2023 and June 30, 2022, respectively.

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- (2) The Company's subsidiary, NTE, has an overdraft facility with HSBC Bank plc whereby the bank would cover any overdrafts up to £300,000, or approximately \$370,370. The annual interest rate was 5.5% as of March 31, 2023. The total outstanding balance as of March 31, 2023 and June 30, 2022 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 March 31, 2023, NTE was in compliance with this covenant.

- (3) 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 COVID-19 pandemic. This is a term loan payable in three years. The availed facility amount was Rs. nil or \$nil, at March 31, 2023. The availed facility amount is Rs. 86,887,974 or \$423,101, at June 30, 2022, which is shown as current. The interest rate for the loan was 3.0% at March 31, 2023 and June 30, 2022.
- (4) The Company's subsidiary, NetSol PK, has an export refinance facility with Askari Bank Limited, secured by NetSol PK's assets. This is a revolving loan that matures every nine months. The total facility amount is Rs. 500,000,000 or \$1,762,363 at March 31, 2023 and Rs. 500,000,000 or \$2,434,749 at June 30, 2022. The interest rate for the loan was 17.0% and 3.0% at March 31, 2023 and June 30, 2022, respectively.
- (5) 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. 53,000,000 or \$188,925, at March 31, 2023. The balance outstanding at March 31, 2023 and June 30, 2022 was Rs. Nil. The interest rate for the loan was 24.0% and 14.0% at March 31, 2023 and June 30, 2022, respectively.

This facility requires NetSol PK to maintain a long-term debt equity ratio of 60:40 and a current ratio of 1:1. As of March 31, 2023, NetSol PK was in compliance with this covenant.

- (6) 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 \$1,339,936 and Rs. 380,000,000 or \$1,850,409 at March 31, 2023 and June 30, 2022, respectively. The interest rate for the loan was 10.0% and 3.0% at March 31, 2023 and June 30, 2022, respectively.

During the tenure of the 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 March 31, 2023, NetSol PK was in compliance with these covenants.

- (7) 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 \$3,172,253 and Rs. 900,000,000 or \$4,382,548, at March 31, 2023 and June 30, 2022, respectively. NetSol PK used Rs. 700,000,000 or \$2,467,308 and Rs. 700,000,000 or \$3,408,648, at March 31, 2023 and June 30, 2022, respectively. The interest rate for the loan was 10.0% and 3.0% at March 31, 2023 and June 30, 2022, respectively.
- (8) The Company's subsidiary, NetSol PK, availed sale and leaseback financing from First Habib Modaraba secured by the transfer of the vehicles' title. As of March 31, 2023, NetSol PK used Rs. 101,834,660 or \$358,939 of which \$209,543 was shown as long term and \$149,396 as current. As of June 30, 2022, NetSol PK used Rs. 127,140,038 or \$619,108 of which \$429,882 was shown as long term and \$189,226 as current. The interest rate for the loan was 9.0% to 16.0% at March 31, 2023, and June 30, 2022.

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- (9) In March 2019, the Company's subsidiary, VLS, entered into a loan agreement. The loan amount was £69,549, or \$85,863, for a period of 5 years with monthly payments of £1,349, or \$1,665. As of March 31, 2023, the subsidiary has used this facility up to \$17,773, which was shown as current. As of June 30, 2022, the subsidiary has used this facility up to \$31,204, of which \$12,865 was shown as long-term and \$18,339 as current. The interest rate was 6.14% at March 31, 2023 and June 30, 2022.
- (10) The Company's subsidiary, VLS, finances Directors' and Officers' ("D&O") liability insurance, and the \$22,594 and \$118,026 was recorded in current maturities, at March 31, 2023 and June 30, 2022, respectively. The interest rate on this financing ranged from 9.7% to 12.7% as of March 31, 2023 and June 30, 2022.
- (11) The Company leases various fixed assets under finance lease arrangements expiring in various years through 2025. 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 nine months ended March 31, 2023 and 2022.

Following are the aggregate minimum future lease payments under finance leases as of March 31, 2023:

	Amount
Minimum Lease Payments	
Within year 1	\$ 33,135
Within year 2	6,052
Total Minimum Lease Payments	39,187
Interest Expense relating to future periods	(3,160)
Present Value of minimum lease payments	36,027
Less: Current portion	(30,327)
Non-Current portion	\$ 5,700

Following are the aggregate future long term debt payments as of March 31, 2023

	Amount
Loan Payments	
Within year 1	\$ 167,169
Within year 2	156,040
Within year 3	53,503
Total Loan Payments	376,712
Less: Current portion	(167,169)
Non-Current portion	\$ 209,543

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NOTE 15 - STOCKHOLDERS' EQUITY

During the three and nine months ended March 31, 2023, the Company issued 15,057 and 41,472 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 \$39,750 and \$119,250, respectively.

NOTE 16 – 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 17 – 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 March 31, 2023 and June 30, 2022:

	As of March 31, 2023	As of June 30, 2022
Identifiable assets:		
Corporate headquarters	\$ 1,633,771	\$ 844,178
North America	6,332,955	6,442,219
Europe	8,351,282	8,727,530
Asia - Pacific	43,231,859	56,594,705
Consolidated	<u>\$ 59,549,867</u>	<u>\$ 72,608,632</u>

The following table presents a summary of investment under equity method as of March 31, 2023 and June 30, 2022:

	As of March 31, 2023	As of June 30, 2022
Investment in associates under equity method:		
Asia - Pacific	\$ 1,066,878	\$ 1,059,368
Consolidated	<u>\$ 1,066,878</u>	<u>\$ 1,059,368</u>

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

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2023	2022	2023	2022
Revenues from unaffiliated customers:				
North America	\$ 1,365,556	\$ 1,113,820	\$ 4,088,696	\$ 3,104,433
Europe	2,550,372	2,088,918	7,643,408	7,483,911
Asia - Pacific	9,590,461	11,607,088	26,870,762	33,115,205
	<u>13,506,389</u>	<u>14,809,826</u>	<u>38,602,866</u>	<u>43,703,549</u>
Revenue from affiliated customers				
Asia - Pacific	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Consolidated	<u>\$ 13,506,389</u>	<u>\$ 14,809,826</u>	<u>\$ 38,602,866</u>	<u>\$ 43,703,549</u>
Intercompany revenue				
Europe	\$ 103,249	\$ 105,668	\$ 292,210	\$ 349,345
Asia - Pacific	2,985,506	3,104,913	7,260,557	6,439,377
Eliminated	<u>\$ 3,088,755</u>	<u>\$ 3,210,581</u>	<u>\$ 7,552,767</u>	<u>\$ 6,788,722</u>
Net income (loss) after taxes and before non-controlling interest:				
Corporate headquarters	\$ 289,652	\$ (394,375)	\$ 919,914	\$ (127,742)
North America	(3,702)	(86,722)	82,677	(213,730)
Europe	(103,219)	(575,533)	(586,607)	(973,972)
Asia - Pacific	4,059,800	1,039,158	986,613	4,287,015
Consolidated	<u>\$ 4,242,531</u>	<u>\$ (17,472)</u>	<u>\$ 1,402,597</u>	<u>\$ 2,971,571</u>
Depreciation and amortization:				
North America	\$ 657	\$ 451	\$ 1,866	\$ 1,544
Europe	65,584	88,987	207,186	288,481
Asia - Pacific	716,725	858,495	2,310,417	2,579,646
Consolidated	<u>\$ 782,966</u>	<u>\$ 947,933</u>	<u>\$ 2,519,469</u>	<u>\$ 2,869,671</u>
Interest expense:				
Corporate headquarters	\$ 7,834	\$ 8,105	\$ 16,226	\$ 28,111
North America	-	-	-	-
Europe	1,806	1,766	8,146	8,050
Asia - Pacific	178,497	76,045	487,738	241,576
Consolidated	<u>\$ 188,137</u>	<u>\$ 85,916</u>	<u>\$ 512,110</u>	<u>\$ 277,737</u>
Income tax expense:				
Corporate headquarters	\$ -	\$ -	\$ -	\$ (43,354)
North America	1,600	400	1,600	46,154
Europe	2,822	-	2,822	9,524
Asia - Pacific	223,296	157,204	636,700	514,413
Consolidated	<u>\$ 227,718</u>	<u>\$ 157,604</u>	<u>\$ 641,122</u>	<u>\$ 526,737</u>

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The following table presents a summary of capital expenditures for the nine months ended March 31:

	For the Nine Months Ended March 31,	
	2023	2022
Capital expenditures:		
North America	\$ 4,880	\$ -
Europe	31,519	134,450
Asia - Pacific	1,538,660	1,546,406
Consolidated	<u>\$ 1,575,059</u>	<u>\$ 1,680,856</u>

NOTE 18 – 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 March 31, 2023
NetSol PK	32.38%	\$ 3,630,559
NetSol-Innovation	32.38%	(123,724)
NAMECET	32.38%	(3,608)
NetSol Thai	0.006%	(197)
OTOZ Thai	10.95%	(43,064)
OTOZ	10.94%	(156,930)
Total		<u>\$ 3,303,036</u>

SUBSIDIARY	Non-Controlling Interest %	Non-Controlling Interest at June 30, 2022
NetSol PK	32.38%	\$ 5,479,905
NetSol-Innovation	32.38%	49,146
NetSol Thai	0.006%	(196)
OTOZ Thai	5.60%	(30,768)
OTOZ	5.59%	(47,698)
Total		<u>\$ 5,450,389</u>

The Company's subsidiary, Otoz, issued 191,011 shares to an employee per the employment agreement resulting in an increase of non-controlling interest from 5.59% to 10.94%. The effective shareholding of the non-controlling interest for Otoz Thai increased to 10.95%.

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The following schedule discloses the effect to the Company's equity due to the changes in the Company's ownership interest in Otoz and Otoz Thai.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2023	2022	2023	2022
Net income (loss) attributable to NetSol	\$ 2,544,623	\$ (278,470)	\$ (169,032)	\$ 1,316,284
Transfer (to) from non-controlling interest				
Increase in paid-in capital for issuance of 191,011 shares of OTOZ Inc common stock	-	-	120,565	-
Net transfer (to) from non-controlling interest	-	-	120,565	-
Change from net income (loss) attributable to NetSol and transfer (to) from non-controlling interest	\$ 2,544,623	\$ (278,470)	\$ (48,467)	\$ 1,316,284

NOTE 19– 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 nine months ended March 31, 2023, the Company recorded an income tax provision of \$227,718 and \$641,122, respectively. During the three and nine months ended March 31, 2022, the Company recorded an income tax provision of \$157,604 and \$526,737, respectively. The tax is derived from non-core business activities generated from NetSol PK.

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 months ended March 31, 2023. 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, 2022, 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 <https://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 <https://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: NTWK) is a worldwide provider of IT and enterprise software solutions. We believe that our solutions constitute mission critical applications for clients, as they encapsulate end-to-end business processes, facilitating faster processing and increased transactions.

Our primary sources of revenues have been licensing, subscriptions, modification, enhancement and support of our suite of financial applications, under the brand name NFS Ascent[®] for leading businesses in the global finance and leasing space. With constant innovation being a major part of NETSOL's DNA, we have enabled NFS Ascent[®] deployment on the cloud with several implementations already live and some underway. This shift to the cloud will enable NETSOL's new customers to opt for a subscription-based pricing model rather than the traditional licensing model.

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

Founded in 1997, NetSol is headquartered in Los Angeles County, 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 and Austin, Texas Area
- Europe London Metropolitan area and Horsham in the UK
- Asia Pacific Lahore, Karachi, Bangkok, Beijing, Shanghai, Jakarta and Sydney

NETSOL believes that our strong technology solutions offer our customers a return on their investment and allows us to thrive in a hyper competitive and mature global marketplace. Our solutions are bolstered by our people. NETSOL believes that people are the drivers of success; therefore, we invest heavily in our hiring, training and retention of top-notch staff to ensure not only successful selling, but also the ongoing satisfaction of our clients. Taken together, this “selling and attentive servicing” approach creates a distinctive advantage for NETSOL and a unique value for its customers. NETSOL continues to underpin its proven and effective business model which is a combination of careful cost arbitrage, subject matter expertise, domain experience, scalability and proximity with its global and regional customers.

Our primary offerings include the following:

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. 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. Our premier, next generation solution NFS Ascent® is now also available on the cloud via SaaS/subscription-based pricing. With swift, seamless deployments and easy scalability, it is an extremely adaptive retail and wholesale platform for the global finance and leasing industry. This cloud-version of NFS Ascent® is offered via flexible, value-driven subscription-based pricing options without the need to pay any upfront license fees.

NFS Digital

NFS Digital is a combination of our core strengths, domain, and technology. Our insight into the evolving landscape along with our valuable experience enables us to define sound digital transformation strategies and compliment them with smart digital solutions so our customers always remain competitive and relevant to the dynamic environment. Our digital transformation solutions are extremely robust and can be used with or without our core, next-gen solution (NFS Ascent®) to effectively augment and enhance our customer’s ecosystem. NFS Digital includes Self-Point of Sale, Mobile Account, Mobile Point of Sale, Mobile Dealer, Mobile Auditor, Mobile Collector and Mobile Field Investigator.

OTOZ

Otoz Digital Auto Retail

Otoz provides a white-labelled SaaS platform to OEMs, auto-captives, dealers and start-ups that helps them launch short and long-term on-demand mobility models (car-share and car subscription) and digital retail in minimum time. Our white-label, turn-key platform helps dealers to make the move into digital era by offering an end-to-end car buying experience completely online. Digital auto-retail is not a one-size-fits-all. Otoz provides a flexible, configurable and scalable turn-key platform that helps define, launch and scale a variety of retail products (finance, lease, buy, etc.). Otoz platform empowers dealers to compete in digital era by addressing a range of customer segments with varied needs.

Otoz Ecosystem

The Otoz powerful Application Program Interface (API) based architecture allows OEMs, auto-captives and dealerships to integrate with a plethora of providers to offer an end-to-end Omni-channel digital car finance and lease experience. Out-of-the-box APIs by Otoz help dealers and auto-captives connect with ecosystem partners which are crucial for running their auto retail business. It includes, finance and insurance products, trade-in tools, fraud checks, CRM system, websites (Tier 1 – Tier 3), marketing toolkit, inventory feeds, Know Your Customers (KYC), payment processors, and vehicle delivery providers amongst others. In addition, Otoz is equipped with smart lead generation and product analytics capabilities. It empowers dealers with the capability to convert qualified leads and never lose contact with customers. The product analytics capability allows us to improve the customer journey by addressing friction points, herein improving customer experience and conversions – a win-win scenario for dealers and customers.

Otoz Platform

A fully digital, white label platform for lease, finance, and cash transactions that delivers a frictionless customer experience.

Otoz platform consists of two components the Dealer Tool and the Customer Application (APP) of a Dealer Tool which provides for a myriad of services including account creation, order management work queue, user roles and rights, tax configurator, customer KYC reports, vehicle delivery scheduling, payment gateways and inventory management, finance and insurance products feed and prioritization, dealer fee management and ecosystem APIs. The Customer App permits the dealer to work with the customer to get a vehicle via cash, finance or lease, manage vehicle delivery and pick-up scheduling, buy finance and insurance products, buy accessories, paperless license checks, personalized pricing, vehicle options, trade-in valuation, credit application and decision, paperless contracts and e-signing, digital payments and a deal builder.

Other Products

The Company continues to support its North America and European legacy systems including LeasePak and LeaseSoft.

Highlights

Listed below are a few of NetSol's highlights for the quarter ended March 31, 2023:

- We signed a new agreement with Kubota Australia Pty Ltd (“Kubota”) to implement our NFS Ascent[®] product. The contract relates to its operations in Australia and is expected to generate revenues of \$5 million over 5 years.
- We went live with the Company's API-first cloud-based calculation engine, Flex[™], for Haydock Finance, a business finance provider in the United Kingdom.
- We continued our successful implementations with DFS by going live in Japan with our NFS Ascent[®] CMS system.
- Otoz went live with its 38th dealer and has dealers in 16 states.
- We effectively generated approximately \$1.0 million by successfully implementing change requests from various customers across multiple regions.
- We achieved the status of API Gateway Delivery Partner with Amazon Web Services (AWS). With this extended APN partnership, we will have access to AWS API Gateway, a fully managed service that makes it easy for developers to create, publish, maintain, monitor, and secure APIs (application programming interfaces) at any scale. This partnership is expected to help the business generate new sales for this growth vertical.

Management has identified the following material trends affecting NetSol.

Positive trends:

- According to S&P Global Mobility, new vehicles sales globally are expected to reach 84 million units in 2023 for a 5.6% increase. U.S. sales volumes are expected to reach approximately 15 million units, an estimated increase of 8% from the projected 2022 levels.
- Reduction of the U.S. inflation rate over the last few months to approximately 5% annually.
- The elimination of travel related COVID-19 testing increases opportunities to meet face to face with current and potential customers.
- NFS Ascent[®] SaaS offerings and major on-premise license offerings are gaining traction in both mid and large size auto captives in the North American and European markets.
- The auto and banking sectors continue momentum towards increased mobility and digital solutions according to Forbes and Insider Intelligence 2022.
- The China Pakistan Economic Corridor (CPEC) investment, initiated by China, has exceeded \$65 billion investment, from the originally planned \$46 billion, in Pakistan energy and infrastructure sectors. Last June, China authorized a new \$2.3 billion loan at a discounted rate to Pakistan as a short-term loan.
- China's auto sector remains steady with government year-end incentives and customers requesting additional services reflecting the resilience of our offerings.
- There has been a positive trend in business development activities in the US and China as both countries are interested in a stable and bilateral relationship.

Negative trends:

- General economic conditions in our geographic markets; geopolitical tensions, including trade wars, tariffs and/or sanctions in geographic areas; Global pandemics, including COVID-19; and, global conflicts or disasters that impact the global economy or one or more sectors of the global economy.
- A global recession fear impacts the future expansions and budgets in every country and every sector.
- Continued interest rate increases by the U.S. Federal Reserve Board in 2023 restricting buying power for consumers.
- The negative currency impact on our financial statements due to the devaluation of the Pakistan Rupee and the British Pound Sterling in comparison to the US Dollar.
- Political, monetary and economic challenges and higher inflation rate than other regional countries impacting Pakistan exports.
- Inflation and higher interest rates globally have greatly increased the cost of doing business, including salaries and benefits worldwide, affecting profitability.
- War and hostility between Russia and Ukraine continue to foster global uncertainty.
- The decline by over 20% in 2022 of the U.S. markets including the NASDAQ index and the Russell 2000 index limiting access to capital markets.
- Working from the office might not return to pre-pandemic levels which may affect employee collaboration potentially lessening efficiency.
- The Pakistan political and economic environment will likely remain unsteady until new elections are called.

CHANGES IN FINANCIAL CONDITION

Quarter Ended March 31, 2023 Compared to the Quarter Ended March 31, 2022

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the three months ended March 31, 2023 and 2022 as a percentage of revenues.

	For the Three Months Ended March 31,			
	2023	%	2022	%
Net Revenues:				
License fees	\$ 1,982,985	14.7%	\$ 1,620,827	10.9%
Subscription and support	6,656,082	49.3%	6,554,540	44.3%
Services	4,867,322	36.0%	6,634,459	44.8%
Total net revenues	13,506,389	100.0%	14,809,826	100.0%
Cost of revenues:				
Salaries and consultants	6,453,814	47.8%	6,756,898	45.6%
Travel	724,431	5.4%	256,730	1.7%
Depreciation and amortization	602,829	4.5%	741,587	5.0%
Other	1,020,286	7.6%	1,220,041	8.2%
Total cost of revenues	8,801,360	65.2%	8,975,256	60.6%
Gross profit	4,705,029	34.8%	5,834,570	39.4%
Operating expenses:				
Selling and marketing	1,643,853	12.2%	2,074,873	14.0%
Depreciation and amortization	180,137	1.3%	206,346	1.4%
General and administrative	3,509,212	26.0%	3,841,655	25.9%
Research and development cost	302,262	2.2%	251,001	1.7%
Total operating expenses	5,635,464	41.7%	6,373,875	43.0%
Income (loss) from operations	(930,435)	-6.9%	(539,305)	-3.6%
Other income and (expenses)				
Gain (loss) on sale of assets	(84,838)	-0.6%	8,770	0.1%
Interest expense	(188,137)	-1.4%	(85,916)	-0.6%
Interest income	263,794	2.0%	364,161	2.5%
Gain (loss) on foreign currency exchange transactions	5,385,591	39.9%	499,516	3.4%
Share of net loss from equity investment	2,377	0.0%	(76,798)	-0.5%
Other income (expense)	21,897	0.2%	(30,296)	-0.2%
Total other income (expenses)	5,400,684	40.0%	679,437	4.6%
Net income before income taxes	4,470,249	33.1%	140,132	0.9%
Income tax provision	(227,718)	-1.7%	(157,604)	-1.1%
Net income (loss)	4,242,531	31.4%	(17,472)	-0.1%
Non-controlling interest	(1,697,908)	-12.6%	(260,998)	-1.8%
Net income (loss) attributable to NetSol	\$ 2,544,623	18.8%	\$ (278,470)	-1.9%
Net income (loss) per share:				
Net income (loss) per common share				
Basic	\$ 0.23		\$ (0.02)	
Diluted	\$ 0.23		\$ (0.02)	
Weighted average number of shares outstanding				
Basic	11,283,954		11,249,606	
Diluted	11,283,954		11,249,606	

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 17 “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 March 31,				Favorable (Unfavorable)	Favorable (Unfavorable) Change due to Currency Fluctuation	Total Favorable (Unfavorable) Change as Reported
	2023	%	2022	%	Change in Constant Currency		
Net Revenues:	\$ 13,506,389	100.0%	\$ 14,809,826	100.0%	\$ (707,932)	\$ (595,505)	\$ (1,303,437)
Cost of revenues:	8,801,360	65.2%	8,975,256	60.6%	(2,716,350)	2,890,246	173,896
Gross profit	4,705,029	34.8%	5,834,570	39.4%	(3,424,282)	2,294,741	(1,129,541)
Operating expenses:	5,635,464	41.7%	6,373,875	43.0%	(490,388)	1,228,799	738,411
Income (loss) from operations	\$ (930,435)	-6.9%	\$ (539,305)	-3.6%	\$ (3,914,670)	\$ 3,523,540	\$ (391,130)

Net revenues for the three months ended March 31, 2023 and 2022 are broken out among the segments as follows:

	2023		2022	
	Revenue	%	Revenue	%
North America	\$ 1,365,556	10.1%	\$ 1,113,820	7.5%
Europe	2,550,372	18.9%	2,088,918	14.1%
Asia-Pacific	9,590,461	71.0%	11,607,088	78.4%
Total	\$ 13,506,389	100.0%	\$ 14,809,826	100.0%

Revenues

License fees

License fees for the three months ended March 31, 2023 were \$1,982,985 compared to \$1,620,827 for the three months ended March 31, 2022 reflecting an increase of \$362,158 with an increase in constant currency of \$479,420. During the three months ended March 31, 2023, we recognized approximately \$1,918,000 related to a new NFS Ascent[®] agreement with Kubota in Australia. During the three months ended March 31, 2022, we recognized approximately \$1,117,000 related to a new agreement with DTFS for the sale of both our legacy and Ascent product[®] for their new business segment in the South African market and \$465,000 from the DFS contract.

Subscription and support

Subscription and support fees for the three months ended March 31, 2023 were \$6,656,082 compared to \$6,554,540 for the three months ended March 31, 2022 reflecting an increase of \$101,542 with an increase in constant currency of \$264,776. 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 March 31, 2023 was \$4,867,322 compared to \$6,634,459 for the three months ended March 31, 2022 reflecting a decrease of \$1,767,137 with a decrease in constant currency of \$1,452,128. The decrease is primarily due to the decrease in services provided for ongoing implementations and additional change requests.

Gross Profit

The gross profit was \$4,705,029, for the three months ended March 31, 2023 compared with \$5,834,570 for the three months ended March 31, 2022. This is a decrease of \$1,129,541 with a decrease in constant currency of \$3,424,282. The gross profit percentage for the three months ended March 31, 2023 also decreased to 34.8% from 39.4% for the three months ended March 31, 2022. The cost of sales was \$8,801,360 for the three months ended March 31, 2023 compared to \$8,975,256 for the three months ended March 31, 2022 for a decrease of \$173,896 and on a constant currency basis an increase of \$2,716,350. As a percentage of sales, cost of sales increased from 60.6% for the three months ended March 31, 2022 to 65.2% for the three months ended March 31, 2023.

Salaries and consultant fees decreased by \$303,084 from \$6,756,898 for the three months ended March 31, 2022 to \$6,453,814 for the three months ended March 31, 2023 and on a constant currency basis increased by \$1,741,371. The increase on a constant currency basis is due to annual salary raises and new hirings. As a percentage of sales, salaries and consultant expense increased from 45.6% for the three months ended March 31, 2022 to 47.8% for the three months ended March 31, 2023.

Travel expense was \$724,431 for the three months ended March 31, 2023 compared to \$256,730 for the three months ended March 31, 2022 for an increase of \$467,701 with an increase in constant currency of \$700,226. The increase in travel expense is due to the increase in travel as countries have been lifting travel restrictions.

Depreciation and amortization expense decreased to \$602,829 compared to \$741,587 for the three months ended March 31, 2022 or a decrease of \$138,758 and on a constant currency basis an increase of \$139,936.

Other costs decreased to \$1,020,286 for the three months ended March 31, 2023 compared to \$1,220,041 for the three months ended March 31, 2022 or a decrease of \$199,755 and on a constant currency basis an increase of \$134,817.

Operating Expenses

Operating expenses were \$5,635,464 for the three months ended March 31, 2023 compared to \$6,373,875, for the three months ended March 31, 2022 for a decrease of 11.6% or \$738,411 and on a constant currency basis an increase of 7.7% or \$490,388. As a percentage of sales, it decreased from 43.0% to 41.7%. The increase in operating expenses on a constant currency basis was primarily due to increases in salaries and wages and research and development costs, offset by decreases in selling and marketing expense and other general and administrative expenses.

Selling expenses were \$1,643,853 for the three months ended March 31, 2023 compared to \$2,074,873, for the three months ended March 31, 2022 for a decrease of \$431,020 and on a constant currency basis a decrease of \$57,742.

General and administrative expenses were \$3,509,212 for the three months ended March 31, 2023 compared to \$3,841,655 for the three months ended March 31, 2022 or a decrease of \$332,443 or 8.7% and on a constant currency basis an increase of \$304,475 or 7.9%. During the three months ended March 31, 2023, salaries decreased by approximately \$52,981 and increased \$389,564 on a constant currency basis, and other general and administrative expenses decreased approximately \$308,825 or decreased by \$129,617 on a constant currency basis.

Research and development cost was \$302,262 for the three months ended March 31, 2023 compared to \$251,001, for the three months ended March 31, 2022 for an increase of \$51,261 and on a constant currency basis an increase of \$215,444.

Income/Loss from Operations

Loss from operations was \$930,435 for the three months ended March 31, 2023 compared to a loss of \$539,305 for the three months ended March 31, 2022. This represents an increase in the loss of \$391,130 with an increase in the loss of \$3,914,670 on a constant currency basis for the three months ended March 31, 2023 compared with the three months ended March 31, 2022. As a percentage of sales, loss from operations was 6.9% for the three months ended March 31, 2023 compared to 3.6% for the three months ended March 31, 2022.

Other Income and Expense

Other income was \$5,400,684 for the three months ended March 31, 2023 compared to \$679,437 for the three months ended March 31, 2022. This represents an increase of \$4,721,247 with an increase of \$7,233,035 on a constant currency basis. The increase is primarily due to the foreign currency exchange transactions. The majority of the contracts with NetSol PK are either in U.S. dollars or Euros; therefore, the currency fluctuations will lead to foreign currency exchange gains or losses depending on the value of the PKR compared to the U.S. dollar and the Euro. During the three months ended March 31, 2023, we recognized a gain of \$5,385,591 in foreign currency exchange transactions compared to \$499,516 for the three months ended March 31, 2022. During the three months ended March 31, 2023, the value of the U.S. dollar increased 25.3% and the Euro increased 27.3%, compared to the PKR. During the three months ended March 31, 2022, the value of the U.S. dollar and the Euro increased 3.2% and 1.2%, respectively, compared to the PKR.

Non-controlling Interest

For the three months ended March 31, 2023, the net income attributable to non-controlling interest was \$1,697,908, compared to \$260,998 for the three months ended March 31, 2022. The increase in non-controlling interest is primarily due to the increase in net income of NetSol PK.

Net income (loss) attributable to NetSol

The net income was \$2,544,623 for the three months ended March 31, 2023 compared to a net loss of \$278,470 for the three months ended March 31, 2022. This is an increase of \$2,823,093 with an increase of \$1,511,612 on a constant currency basis, compared to the prior year. For the three months ended March 31, 2023, net income per share was \$0.23 for basic and diluted shares compared to net loss per share of \$0.02 for basic and diluted shares for the three months ended March 31, 2022.

Nine Months Ended March 31, 2023 Compared to the Nine Months Ended March 31, 2022

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the nine months ended March 31, 2023 and 2022 as a percentage of revenues.

	For the Nine Months Ended March 31,			
	2023	%	2022	%
Net Revenues:				
License fees	\$ 2,248,829	5.8%	\$ 3,586,874	8.2%
Subscription and support	19,175,585	49.7%	22,159,798	50.7%
Services	17,178,452	44.5%	17,956,877	41.1%
Total net revenues	38,602,866	100.0%	43,703,549	100.0%
Cost of revenues:				
Salaries and consultants	19,482,720	50.5%	18,081,225	41.4%
Travel	1,752,074	4.5%	753,698	1.7%
Depreciation and amortization	1,950,156	5.1%	2,236,190	5.1%
Other	3,318,427	8.6%	3,712,256	8.5%
Total cost of revenues	26,503,377	68.7%	24,783,369	56.7%
Gross profit	12,099,489	31.3%	18,920,180	43.3%
Operating expenses:				
Selling and marketing	5,413,492	14.0%	5,502,028	12.6%
Depreciation and amortization	569,313	1.5%	633,481	1.4%
General and administrative	10,745,031	27.8%	11,548,097	26.4%
Research and development cost	1,244,793	3.2%	761,621	1.7%
Total operating expenses	17,972,629	46.6%	18,445,227	42.2%
Income (loss) from operations	(5,873,140)	-15.2%	474,953	1.1%
Other income and (expenses)				
Gain (loss) on sale of assets	(56,494)	-0.1%	(181,955)	-0.4%
Interest expense	(512,110)	-1.3%	(277,737)	-0.6%
Interest income	1,005,557	2.6%	1,123,547	2.6%
Gain (loss) on foreign currency exchange transactions	7,358,519	19.1%	2,684,680	6.1%
Share of net loss from equity investment	7,510	0.0%	(317,581)	-0.7%
Other income (expense)	113,877	0.3%	(7,599)	0.0%
Total other income (expenses)	7,916,859	20.5%	3,023,355	6.9%
Net income before income taxes	2,043,719	5.3%	3,498,308	8.0%
Income tax provision	(641,122)	-1.7%	(526,737)	-1.2%
Net income (loss)	1,402,597	3.6%	2,971,571	6.8%
Non-controlling interest	(1,571,629)	-4.1%	(1,655,287)	-3.8%
Net income (loss) attributable to NetSol	\$ (169,032)	-0.4%	\$ 1,316,284	3.0%
Net income (loss) per share:				
Net income (loss) per common share				
Basic	\$ (0.01)		\$ 0.12	
Diluted	\$ (0.01)		\$ 0.12	
Weighted average number of shares outstanding				
Basic	11,270,466		11,249,449	
Diluted	11,270,466		11,249,449	

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 17 “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 Nine Months Ended March 31,				Favorable (Unfavorable) Change in Constant Currency	Favorable (Unfavorable) Change due to Currency Fluctuation	Total Favorable (Unfavorable) Change as Reported
	2023	%	2022	%			
Net Revenues:	\$ 38,602,866	100.0%	\$ 43,703,549	100.0%	\$ (3,069,077)	\$ (2,031,606)	\$ (5,100,683)
Cost of revenues:	26,503,377	68.7%	24,783,369	56.7%	(9,047,722)	7,327,714	(1,720,008)
Gross profit	12,099,489	31.3%	18,920,180	43.3%	(12,116,799)	5,296,108	(6,820,691)
Operating expenses:	17,972,629	46.6%	18,445,227	42.2%	(3,016,282)	3,488,880	472,598
Income (loss) from operations	\$ (5,873,140)	-15.2%	\$ 474,953	1.1%	\$ (15,133,081)	\$ 8,784,988	\$ (6,348,093)

Net revenues for the nine months ended March 31, 2023 and 2022 are broken out among the segments as follows:

	2023		2022	
	Revenue	%	Revenue	%
North America	\$ 4,088,696	10.6%	\$ 3,104,433	7.1%
Europe	7,643,408	19.8%	7,483,911	17.1%
Asia-Pacific	26,870,762	69.6%	33,115,205	75.8%
Total	\$ 38,602,866	100.0%	\$ 43,703,549	100.0%

Revenues

License fees

License fees for the nine months ended March 31, 2023 were \$2,248,829 compared to \$3,586,874 for the nine months ended March 31, 2022 reflecting a decrease of \$1,338,045 with a decrease in constant currency of \$1,212,555. During the nine months ended March 31, 2023, we recognized approximately \$1,918,000 related to a new NFS Ascent[®] agreement with Kubota in Australia and approximately \$188,000 related to a new agreement with the Government of Khyber Pakhtunkhwa for the sale of our Ascent[®] product. During the nine months ended March 31, 2022, we recognized approximately \$3,039,000 related to a new agreement with DTFS for the sale of both our legacy and Ascent product[®] for their new business segment in the Japanese, Australian and South African markets and \$465,000 from the DFS contract.

Subscription and support

Subscription and support fees for the nine months ended March 31, 2023 were \$19,175,585 compared to \$22,159,798 for the nine months ended March 31, 2022 reflecting a decrease of \$2,984,213 with a decrease in constant currency of \$2,370,859. The decrease in subscription and support revenue is related to the revised ceiling amount for post contract support due to the software customizations related to the DFS contract. The Company recorded a one-time post contract support revenue of approximately \$3,480,000 using the catch-up approach during the nine months ended March 31, 2022. 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 nine months ended March 31, 2023 was \$17,178,452 compared to \$17,956,877 for the nine months ended March 31, 2022 reflecting a decrease of \$778,425 with an increase in constant currency of \$514,337. The change is primarily due to services provided for ongoing implementations plus additional change requests.

Gross Profit

The gross profit was \$12,099,489 for the nine months ended March 31, 2023 compared with \$18,920,180 for the nine months ended March 31, 2022. This is a decrease of \$6,820,691 with a decrease in constant currency of \$12,116,799. The gross profit percentage for the nine months ended March 31, 2023 also decreased to 31.3% from 43.3% for the nine months ended March 31, 2022. The cost of sales was \$26,503,377 for the nine months ended March 31, 2023 compared to \$24,783,369 for the nine months ended March 31, 2022 for an increase of \$1,720,008 and on a constant currency basis an increase of \$9,047,722. As a percentage of sales, cost of sales increased from 56.7% for the nine months ended March 31, 2022 to 68.7% for the nine months ended March 31, 2023.

Salaries and consultant fees increased by \$1,401,495 from \$18,081,225 for the nine months ended March 31, 2022 to \$19,482,720 for the nine months ended March 31, 2023 and on a constant currency basis increased by \$6,651,377. The increase is due to annual salary raises and new hirings. As a percentage of sales, salaries and consultant expense increased from 41.4% for the nine months ended March 31, 2022 to 50.5% for the nine months ended March 31, 2023.

Travel expense was \$1,752,074 for the nine months ended March 31, 2023 compared to \$753,698 for the nine months ended March 31, 2022 for an increase of \$998,376 with an increase in constant currency of \$1,487,642. The increase in travel expense is due to the increase in travel as countries have been lifting travel restrictions.

Depreciation and amortization expense decreased to \$1,950,156 compared to \$2,236,190 for the nine months ended March 31, 2022 or a decrease of \$286,034 and on a constant currency basis an increase of \$418,918.

Other costs decreased to \$3,318,427 for the nine months ended March 31, 2023 compared to \$3,712,256 for the nine months ended March 31, 2022 or a decrease of \$393,829 and on a constant currency basis an increase of \$489,785. The increase on a constant currency basis is mainly due to increases in computer costs.

Operating Expenses

Operating expenses were \$17,972,629 for the nine months ended March 31, 2023 compared to \$18,445,227, for the nine months ended March 31, 2022 for a decrease of 2.6% or \$472,598 and on a constant currency basis an increase of 16.3% or \$3,016,282. As a percentage of sales, it increased from 42.2% to 46.6%. The increase in operating expenses on a constant currency basis was primarily due to increases in selling expenses, general and administrative expenses and research and development costs.

Selling expenses were \$5,413,492 for the nine months ended March 31, 2023 compared to \$5,502,028, for the nine months ended March 31, 2022 for a decrease of \$88,536 and on a constant currency basis an increase of \$986,779.

General and administrative expenses were \$10,745,031 for the nine months ended March 31, 2023 compared to \$11,548,097 at March 31, 2022 or a decrease of \$803,066 or 7.0% and on a constant currency basis an increase of \$1,024,055 or 8.9%. During the nine months ended March 31, 2023, salaries decreased by approximately \$364,975 and increased \$805,877 on a constant currency basis, and other general and administrative expenses decreased approximately \$438,091 and increased \$218,178 on a constant currency basis.

Research and development cost was \$1,244,793 for the nine months ended March 31, 2023 compared to \$761,621, for the nine months ended March 31, 2022 for an increase of \$483,172 and on a constant currency basis an increase of \$920,289.

Income/Loss from Operations

Loss from operations was \$5,873,140 for the nine months ended March 31, 2023 compared to income from operations of \$474,953 for the nine months ended March 31, 2022. This represents an increase in the loss of \$6,348,093 with an increase in the loss of \$15,133,081 on a constant currency basis for the nine months ended March 31, 2023 compared with the nine months ended March 31, 2022. As a percentage of sales, loss from operations was 15.2% for the nine months ended March 31, 2023 compared to income from operations of 1.1% for the nine months ended March 31, 2022.

Other Income and Expense

Other income was \$7,916,859 for the nine months ended March 31, 2023 compared to \$3,023,355 for the nine months ended March 31, 2022. This represents an increase of \$4,893,504 with an increase of \$8,201,958 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 nine months ended March 31, 2023, we recognized a gain of \$7,358,519 in foreign currency exchange transactions compared to \$2,684,680 for the nine months ended March 31, 2022. During the nine months ended March 31, 2023, the value of the U.S. dollar and the Euro increased 38.2% and 43.8%, respectively, compared to the PKR. During the nine months ended March 31, 2022, the value of the U.S. dollar and the Euro increased 15.9% and 8.5%, respectively, compared to the PKR.

Non-controlling Interest

For the nine months ended March 31, 2023, the net income attributable to non-controlling interest was \$1,571,629, compared to \$1,655,287 for the nine months ended March 31, 2022. The decrease in non-controlling interest is primarily due to the decrease in net income of NetSol PK.

Net income (loss) attributable to NetSol

The net loss was \$169,032 for the nine months ended March 31, 2023 compared to net income of \$1,316,284 for the nine months ended March 31, 2022. This is a decrease of \$1,485,316 with a decrease of \$6,151,678 on a constant currency basis, compared to the prior year. For the nine months ended March 31, 2023, net loss per share was \$0.01 for basic and diluted shares compared to net income per share of \$0.12 for basic and diluted shares for the nine months ended March 31, 2022.

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 nine months ended March 31, 2023 and 2022 are as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2023	2022	2023	2022
Net Income (loss) attributable to NetSol	\$ 2,544,623	\$ (278,470)	\$ (169,032)	\$ 1,316,284
Non-controlling interest	1,697,908	260,998	1,571,629	1,655,287
Income taxes	227,718	157,604	641,122	526,737
Depreciation and amortization	782,966	947,933	2,519,469	2,869,671
Interest expense	188,137	85,916	512,110	277,737
Interest (income)	(263,794)	(364,161)	(1,005,557)	(1,123,547)
EBITDA	\$ 5,177,558	\$ 809,820	\$ 4,069,741	\$ 5,522,169
Add back:				
Non-cash stock-based compensation	52,392	49,933	198,559	78,225
Adjusted EBITDA, gross	\$ 5,229,950	\$ 859,753	\$ 4,268,300	\$ 5,600,394
Less non-controlling interest (a)	(1,971,516)	(500,805)	(2,363,688)	(2,382,721)
Adjusted EBITDA, net	\$ 3,258,434	\$ 358,948	\$ 1,904,612	\$ 3,217,673
Weighted Average number of shares outstanding				
Basic	11,283,954	11,249,606	11,270,466	11,249,449
Diluted	11,283,954	11,249,606	11,270,466	11,249,449
Basic adjusted EBITDA	\$ 0.29	\$ 0.03	\$ 0.17	\$ 0.29
Diluted adjusted EBITDA	\$ 0.29	\$ 0.03	\$ 0.17	\$ 0.29

(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	\$ 1,697,908	\$ 260,998	\$ 1,571,629	\$ 1,655,287
Income Taxes	69,947	45,427	198,263	159,854
Depreciation and amortization	219,759	279,055	713,676	840,508
Interest expense	57,797	25,764	157,929	81,846
Interest (income)	(77,988)	(117,417)	(303,489)	(362,146)
EBITDA	\$ 1,967,423	\$ 493,827	\$ 2,338,008	\$ 2,375,349
Add back:				
Non-cash stock-based compensation	4,093	6,978	25,680	7,372
Adjusted EBITDA of non-controlling interest	\$ 1,971,516	\$ 500,805	\$ 2,363,688	\$ 2,382,721

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was \$15,259,497 at March 31, 2023, compared to \$23,963,797 at June 30, 2022.

Net cash provided by operating activities was \$2,564,619 for the nine months ended March 31, 2023 compared to \$5,525,951 for the nine months ended March 31, 2022. At March 31, 2023, we had current assets of \$40,824,397 and current liabilities of \$17,656,128. We had accounts receivable of \$9,223,484 at March 31, 2023 compared to \$8,669,202 at June 30, 2022. We had revenues in excess of billings of \$13,741,884 at March 31, 2023 compared to \$15,425,377 at June 30, 2022 of which \$nil and \$853,601 is shown as long term as of March 31, 2023 and June 30, 2022, respectively. The long-term portion was discounted by \$nil and \$28,339 at March 31, 2023 and June 30, 2022, respectively, using the discounted cash flow method with interest rates ranging from 4.65% to 6.25%. During the nine months ended March 31, 2023, 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 \$1,129,211 from \$24,094,579 at June 30, 2022 to \$22,965,368 at March 31, 2023. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to \$7,098,206 and \$5,969,044, respectively at March 31, 2023. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to \$6,813,541 and \$8,567,145, respectively at June 30, 2022.

The average days sales outstanding for the nine months ended March 31, 2023 and 2022 were 167 and 137 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 \$1,421,657 for the nine months ended March 31, 2023, compared to \$1,359,605 for the nine months ended December 31, 2021. We had purchases of property and equipment of \$1,575,059 compared to \$1,680,856 for the nine months ended March 31, 2022.

Net cash used in financing activities was \$517,349 for the nine months ended March 31, 2023, compared to \$833,103 for the nine months ended March 31, 2022. For the nine months ended March 31, 2022, we purchased 22,510 shares of our own stock for \$100,106. The nine months ended March 31, 2023 and 2022 included the cash inflow of \$270,292 and \$312,467, respectively, from bank proceeds. During the nine months ended March 31, 2023, we had net payments for bank loans and finance leases of \$787,641 compared to \$1,045,464 for the nine months ended March 31, 2022. We are operating in various geographical regions of the world through our various subsidiaries. Those subsidiaries have financial arrangements from various financial institutions to meet both their short and long-term funding requirements. These loans will become due at different maturity dates as described in Note 14 of the financial statements. We are in compliance with the covenants of the financial arrangements and there is no default, which may lead to early payment of these obligations. We anticipate paying back all these obligations on their respective due dates from its own sources.

We typically fund the cash requirements for our operations in the U.S. through our license, services, and subscription and support agreements, intercompany charges for corporate services, and through the exercise of options and warrants. As of March 31, 2023, we had approximately \$15.3 million of cash, cash equivalents and marketable securities of which approximately \$13.1 million is held by our foreign subsidiaries. As of June 30, 2022, we had approximately \$24.0 million of cash, cash equivalents and marketable securities of which approximately \$22.8 million was held by our foreign subsidiaries.

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

As a growing company, we have on-going capital expenditure needs based on our short term and long-term business plans. Although our requirements for capital expenses vary from time to time, for the next 12 months, we anticipate needing \$2.5 million for APAC, U.S. and Europe new business development activities and infrastructure enhancements, which we expect to provide from current operations.

Financial Covenants

Our UK based subsidiary, NTE, has an approved overdraft facility of £300,000 (\$370,370) 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 (\$1,762,363) and a running finance facility of Rupees 53 million (\$188,925). NetSol PK has an approved facility for export refinance from another Habib Metro Bank Limited amounting to Rupees 900 million (\$3,172,253). 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 (\$1,339,396) 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, 2022.

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 March 31, 2023, 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

NA

Item 1A. Risk Factors

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- 31.1 [Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(CEO\)](#)
- 31.2 [Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(CFO\)](#)
- 32.1 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(CEO\)](#)
- 32.2 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(CFO\)](#)
- 101. INS Inline XBRL Instance Document
- 101. SCH Inline XBRL Taxonomy Extension Schema Document
- 101. CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101. DFE Inline XBRL Taxonomy Extension definition Linkbase Document
- 101. LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101. PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

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: May 11, 2023

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

Date: May 11, 2023

/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 March 31, 2023 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: May 11, 2023

/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 March 31, 2023 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: May 11, 2023

/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 March 31, 2023, 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: May 11, 2023

/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 March 31, 2023, 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: May 11, 2023

/s/ Roger K. Almond

Roger K. Almond
Chief Financial Officer
Principal Accounting Officer
