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 September 30, 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 ☐	Accelerated Filer ☐
Non-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 12,311,850 shares issued and 11,372,819 outstanding of its $.01 par value Common Stock and no Preferred Stock outstanding as of November 3, 2023.

NETSOL TECHNOLOGIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	As of September 30, 2023	As of June 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,551,677	$ 15,533,254
Accounts receivable, net of allowance of $416,435 and $420,354	6,870,956	11,714,422
Revenues in excess of billings, net of allowance of $116,425 and $1,380,141	13,008,285	12,377,677
Other current assets	2,244,490	1,978,514
Total current assets	38,675,408	41,603,867
Revenues in excess of billings, net - long term	724,875	-
Property and equipment, net	5,770,794	6,161,186
Right of use assets - operating leases	1,359,106	1,151,575
Other assets	32,326	32,327
Intangible assets, net	-	127,931
Goodwill	9,302,524	9,302,524
Total assets	$ 55,865,033	$ 58,379,410
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 6,802,879	$ 6,552,181
Current portion of loans and obligations under finance leases	5,756,553	5,779,510
Current portion of operating lease obligations	538,363	505,237
Unearned revenue	5,170,335	7,932,306
Total current liabilities	18,268,130	20,769,234
Loans and obligations under finance leases; less current maturities	137,847	176,229
Operating lease obligations; less current maturities	795,935	652,194
Total liabilities	19,201,912	21,597,657
Stockholders' equity:		
Preferred stock, $.01 par value; 500,000 shares authorized;	-	-
Common stock, $.01 par value; 14,500,000 shares authorized; 12,311,850 shares issued and 11,372,819 outstanding as of September 30, 2023 12,284,887 shares issued and 11,345,856 outstanding as of June 30, 2023	123,120	122,850
Additional paid-in-capital	128,536,132	128,476,048
Treasury stock (at cost, 939,031 shares as of September 30, 2023 and June 30, 2023)	(3,920,856)	(3,920,856)
Accumulated deficit	(44,865,296)	(44,896,186)
Other comprehensive loss	(46,411,702)	(45,975,156)
Total NetSol stockholders' equity	33,461,398	33,806,700
Non-controlling interest	3,201,723	2,975,053
Total stockholders' equity	36,663,121	36,781,753
Total liabilities and stockholders' equity	$ 55,865,033	$ 58,379,410

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

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended September 30, 2023	2022
Net Revenues:		
License fees	$ 1,280,449	$ 249,960
Subscription and support	6,512,243	6,016,834
Services	6,449,489	6,439,325
Total net revenues	14,242,181	12,706,119
Cost of revenues	8,080,164	8,454,122
Gross profit	6,162,017	4,251,997
Operating expenses:		
Selling, general and administrative	5,432,969	5,678,561
Research and development cost	378,419	469,627
Total operating expenses	5,811,388	6,148,188
Income (loss) from operations	350,629	(1,896,191)
Other income and (expenses)		
Interest expense	(276,017)	(121,610)
Interest income	414,718	431,857
Gain (loss) on foreign currency exchange transactions	(134,253)	1,315,705
Other income (expense)	57,881	25,616
Total other income (expenses)	62,329	1,651,568
Net income (loss) before income taxes	412,958	(244,623)
Income tax provision	(121,895)	(193,348)
Net income (loss)	291,063	(437,971)
Non-controlling interest	(260,173)	(182,758)
Net income (loss) attributable to NetSol	$ 30,890	$ (620,729)
Net income (loss) per share:		
Net income (loss) per common share		
Basic	$ 0.003	$ (0.06)
Diluted	$ 0.003	$ (0.06)
Weighted average number of shares outstanding		
Basic	11,345,856	11,257,539
Diluted	11,345,856	11,257,539

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

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	For the Three Months Ended September 30,	
	2023	2022
Net income (loss)	$ 30,890	$ (620,729)
Other comprehensive income (loss):		
Translation adjustment	(470,049)	(4,151,519)
Translation adjustment attributable to non-controlling interest	33,503	1,233,469
Net translation adjustment	(436,546)	(2,918,050)
Comprehensive income (loss) attributable to NetSol	$ (405,656)	$ (3,538,779)

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 September 30, 2023 is provided below:

	Common Stock		Additional Paid-in	Treasury	Accumulated	Other Compre-hensive	Non Controlling	Total Stockholders'
	Shares	Amount	Capital	Shares	Deficit	Loss	Interest	Equity
Balance at June 30, 2023	12,284,887	$ 122,850	$ 128,476,048	$ (3,920,856)	$ (44,896,186)	$ (45,975,156)	$ 2,975,053	$ 36,781,753
Common stock issued for: Services	26,963	270	48,530	-	-	-	-	48,800
Fair value of subsidiary options issued	-	-	11,554	-	-	-	-	11,554
Foreign currency translation adjustment	-	-	-	-	-	(436,546)	(33,503)	(470,049)
Net income (loss) for the year	-	-	-	-	30,890	-	260,173	291,063
Balance at September 30, 2023	12,311,850	$ 123,120	$ 128,536,132	$ (3,920,856)	$ (44,865,296)	$ (46,411,702)	$ 3,201,723	$ 36,663,121

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

	Common Stock		Additional Paid-in	Treasury	Accumulated	Other Compre-hensive	Non Controlling	Total Stockholders'
	Shares	Amount	Capital	Shares	Deficit	Loss	Interest	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	12,209,230	$ 122,093	$ 128,420,519	$ (3,920,856)	$ (40,273,167)	$ (42,281,135)	$ 4,279,113	$ 46,346,567

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 Three Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income (loss)	$ 291,063	$ (437,971)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	530,786	845,003
Provision for bad debts	7,880	(47,479)
Gain on sale of assets	(98)	(23,296)
Stock based compensation	60,354	81,834
Changes in operating assets and liabilities:		
Accounts receivable	4,608,881	815,132
Revenues in excess of billing	(1,478,386)	337,996
Other current assets	92,686	(340,390)
Accounts payable and accrued expenses	341,722	687,453
Unearned revenue	(2,791,269)	(619,425)
Net cash provided by operating activities	1,663,619	1,298,857
Cash flows from investing activities:		
Purchases of property and equipment	(371,630)	(1,347,601)
Sales of property and equipment	1,230	453,607
Net cash used in investing activities	(370,400)	(893,994)
Cash flows from financing activities:		
Payments on finance lease obligations and loans - net	(44,474)	(445,737)
Net cash used in financing activities	(44,474)	(445,737)
Effect of exchange rate changes	(230,322)	(2,999,975)
Net increase (decrease) in cash and cash equivalents	1,018,423	(3,040,849)
Cash and cash equivalents at beginning of the period	15,533,254	23,963,797
Cash and cash equivalents at end of period	$ 16,551,677	$ 20,922,948

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 Three Months Ended September 30,	
	2023	2022
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$ 315,136	$ 94,942
Taxes	$ 111,782	$ 172,064

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

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s annual report on Form 10-K for the year ended June 30, 2023. 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:

<u>Wholly owned Subsidiaries</u>

NetSol Technologies Americas, Inc. (“NTA”)
NetSol Connect (Private), Ltd. (“Connect”)
NetSol Technologies Australia Pty Ltd. (“Australia”)
NetSol Technologies Europe Limited (“NTE”)
NetSol Technologies (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”)

<u>Majority-owned Subsidiaries</u>

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”)

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 ($68,493) in each bank and in the UK for GBP 85,000 ($103,659) in each bank. The Company maintains three bank accounts in China and nine bank accounts in the UK. As of September 30, 2023, and June 30, 2023, the Company had uninsured deposits related to cash deposits in accounts maintained within foreign entities of approximately $15,197,882 and $13,524,518, 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 long-term debt approximate their fair values based on current interest rates for instruments with similar characteristics.

The three levels of valuation hierarchy are defined as follows:

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

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

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

The Company's financial assets that were measured at fair value on a recurring basis as of September 30, 2023, were as follows:

	Level 1	Level 2	Level 3	Total Assets
Revenues in excess of billings - long term	$ -	$ -	$ 724,875	$ 724,875
Total	$ -	$ -	$ 724,875	$ 724,875

The Company did not have any financial assets that were measured at fair value on a recurring basis at June 30, 2023.

The reconciliation from June 30, 2023 to September 30, 2023 is as follows:

	Revenues in excess of billings - long term	Fair value discount	Total
Balance at June 30, 2023	$ -	$ -	$ -
Additions	827,853	(103,958)	723,895
Amortization during the period	-	6,155	6,155
Effect of Translation Adjustment	(4,875)	(300)	(5,175)
Balance at September 30, 2023	$ 822,978	$ (98,103)	$ 724,875

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, and was adopted by the Company on July 1, 2023. The adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

In August 2023, the FASB issued ASU 2023-05, "Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement. ASU 2023-05 provides decision-useful information to a joint venture's investors and reduces diversity in practice by requiring that a joint venture apply a new basis of accounting upon formation. As a result, a newly formed joint venture, upon formation, would initially measure its assets and liabilities at fair value (with exceptions to fair value measurement that are consistent with the business combinations guidance). ASU 2023-05 is effective prospectively for all joint ventures with a formation date on or after January 1, 2025, and early adoption is 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.

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.

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, most customers renew their support services contracts annually and typical payment terms provide that customers make payment within 30 days of invoice.

Professional Services

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

BPO and Internet Services

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

Disaggregated Revenue

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

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

	For the Three Months Ended September 30, 2023	2022
Core:		
License	$ 1,280,449	$ 249,960
Subscription and support	6,512,243	6,016,834
Services	4,974,554	5,421,366
Total core revenue, net	12,767,246	11,688,160
Non-Core:		
Services	1,474,935	1,017,959
Total non-core revenue, net	1,474,935	1,017,959
Total net revenue	$ 14,242,181	$ 12,706,119

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.

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 September 30, 2023	As of June 30, 2023
Revenues in excess of billings	$ 13,733,160	$ 12,377,677
Unearned revenue	$ 5,170,335	$ 7,932,306

The Company's unearned revenue reconciliation is as follows:

	Unearned Revenue
Balance at June 30, 2023	$ 7,932,306
Invoiced	3,266,924
Revenue Recognized	(5,876,193)
Adjustments	(152,702)
Balance at September 30, 2023	$ 5,170,335

During the three months ended September 30, 2023, the Company recognized revenue of $4,207,000 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.

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 $29,053,000 as of September 30, 2023, of which the Company estimates to recognize approximately $15,757,000 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.

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 months ended September 30, 2023 and 2022, there were no outstanding dilutive instruments.

NOTE 5 – OTHER COMPREHENSIVE INCOME AND FOREIGN CURRENCY

The following table represents the functional currencies of the Company and its subsidiaries:

The Company and Subsidiaries	Functional Currency
NetSol Technologies, Inc.	USD
NTA	USD
Otoz	USD
NTE	British Pound
AEL	British Pound
VLSH	British Pound
VLS	British Pound
VLSIL	Euro
NetSol PK	Pakistan Rupee
Connect	Pakistan Rupee
NetSol Innovation	Pakistan Rupee
NetSol Thai	Thai Bhat
Otoz Thai	Thai Bhat
Australia	Australian Dollar
Namecet	AED
NetSol Beijing	Chinese Yuan
Tianjin	Chinese Yuan

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 $46,411,702 and $45,975,156 as of September 30, 2023 and June 30, 2023, respectively. During the three months ended September 30, 2023 and 2022, comprehensive income (loss) in the consolidated statements of comprehensive income (loss) included a translation loss attributable to NetSol of $436,546 and $2,918,050, respectively.

NOTE 6 – MAJOR CUSTOMERS

During the three months ended September 30, 2023, revenues from Daimler Financial Services ("DFS") were $3,687,631, representing 25.9% of revenues. During the three months ended September 30, 2022, revenues from Daimler Financial Services ("DFS") were $3,591,807, representing 28.3% of revenues. The revenues from DFS are shown in the Asia – Pacific segment.

Accounts receivable from DFS at September 30, 2023 and June 30, 2023, were $999,337 and $4,368,881, respectively. Revenues in excess of billings at September 30, 2023 and June 30, 2023, were $1,229,485 and $1,961,750, respectively.

NOTE 7 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of September 30, 2023	As of June 30, 2023
Prepaid Expenses	$ 1,368,821	$ 1,299,334
Advance Income Tax	187,910	144,428
Employee Advances	52,955	68,488
Security Deposits	174,177	177,148
Other Receivables	145,792	92,716
Other Assets	314,835	196,400
Net Balance	$ 2,244,490	$ 1,978,514

NOTE 8 – REVENUES IN EXCESS OF BILLINGS – LONG TERM

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

	As of September 30, 2023	As of June 30, 2023
Revenues in excess of billings - long term	$ 822,978	$ -
Present value discount	(98,103)	-
Net Balance	$ 724,875	$ -

Pursuant to revenue recognition for contract accounting, the Company has recorded revenues in excess of billings long-term for amounts billable after one year. During the three months ended September 30, 2023 and 2022, the Company accreted $6,155 and $9,369, respectively, which was recorded in interest income for that period. The Company used the discounted cash flow method with an interest rate of 7.34% for the period ended September, 30, 2023. The Company used the discounted cash flow method with interest rates ranging from 4.65% to 6.25% for the period ended September 30, 2022.

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	As of September 30, 2023	As of June 30, 2023
Office Furniture and Equipment	$ 2,341,918	$ 2,678,664
Computer Equipment	8,101,989	8,317,131
Assets Under Capital Leases	46,451	46,554
Building	3,490,534	3,497,913
Land	883,505	885,474
Autos	1,940,408	1,941,063
Improvements	202,241	205,289
Subtotal	17,007,046	17,572,088
Accumulated Depreciation	(11,236,252)	(11,410,902)
Property and Equipment, Net	$ 5,770,794	$ 6,161,186

For the three months ended September 30, 2023 and 2022, depreciation expense totaled $404,745 and $522,183, respectively. Of these amounts, $266,942 and $331,229, respectively, are reflected in cost of revenues.

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

	As of September 30, 2023	As of June 30, 2023
Vehicles	$ 46,451	$ 46,554
Total	46,451	46,554
Less: Accumulated Depreciation - Net	(19,650)	(17,366)
	$ 26,801	$ 29,188

Finance lease term and discount rate were as follows:

	As of September 30, 2023	As of June 30, 2023
Weighted average remaining lease term - Finance leases	1 Years	1.21 Years
Weighted average discount rate - Finance leases	16.4%	16.4%

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.

Supplemental balance sheet information related to leases was as follows:

	As of September 30, 2023	As of June 30, 2023
Assets		
Operating lease assets, net	$ 1,359,106	$ 1,151,575
Liabilities		
Current		
Operating	$ 538,363	$ 505,237
Non-current		
Operating	795,935	652,194
Total Lease Liabilities	$ 1,334,298	$ 1,157,431

The components of lease cost were as follows:

	For the Three Months Ended September 30, 2023	2022
Amortization of finance lease assets	$ 2,296	$ 2,896
Interest on finance lease obligation	869	1,807
Operating lease cost	107,033	118,522
Short term lease cost	41,008	66,636
Sub lease income	(8,406)	(7,812)
Total lease cost	$ 142,800	$ 182,049

Lease term and discount rate were as follows:

	As of September 30, 2023	As of June 30, 2023
Weighted average remaining lease term - Operating leases	2.64 Years	3.09 Years
Weighted average discount rate - Operating leases	4.6%	4.0%

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

	For the Three Months Ended September 30	
	2023	2022
Operating cash flows related to operating leases	$ 61,696	$ 122,121
Operating cash flows related to finance leases	$ 869	$ 1,807
Financing cash flows related finance leases	$ 8,078	$ 3,679

Maturities of operating lease liabilities were as follows as of September 30, 2023:

	Amount
Within year 1	$ 586,637
Within year 2	520,197
Within year 3	274,418
Within year 4	30,815
Within year 5	459
Thereafter	344
Total Lease Payments	1,412,870
Less: Imputed interest	(78,572)
Present Value of lease liabilities	1,334,298
Less: Current portion	(538,363)
Non-Current portion	$ 795,935

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 months ended September 30, 2023 and 2022, the Company received lease income of $8,406 and $7,812, respectively.

NOTE 11 - INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of September 30, 2023	As of June 30, 2023
Product Licenses - Cost	$ 39,395,533	$ 47,244,997
Effect of Translation Adjustment	(24,867,352)	(24,756,959)
Accumulated Amortization	(14,528,181)	(22,360,107)
Net Balance	$ -	$ 127,931

Product Licenses

Product licenses include internally developed software cost. Product licenses are amortized on a straight-line basis over their respective lives. Amortization expense for the three months ended September 30, 2023 and 2022, was $126,041 and $322,820, respectively.

NOTE 12 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of September 30, 2023	As of June 30, 2023
Accounts Payable	$ 1,370,668	$ 1,114,915
Accrued Liabilities	3,560,270	3,695,091
Accrued Payroll	1,101,210	982,884
Accrued Payroll Taxes	158,905	170,063
Taxes Payable	198,636	195,491
Other Payable	413,190	393,737
Total	$ 6,802,879	$ 6,552,181

NOTE 13 – DEBTS

Notes payable and finance leases consisted of the following:

		As of September 30, 2023		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$ 14,495	$ 14,495	$ -
Bank Overdraft Facility	(2)	-	-	-
Loan Payable Bank - Export Refinance	(3)	1,737,619	1,737,619	-
Loan Payable Bank - Running Finance	(4)	-	-	-
Loan Payable Bank - Export Refinance II	(5)	1,320,591	1,320,591	-
Loan Payable Bank - Export Refinance III	(6)	2,432,667	2,432,667	-
Sale and Leaseback Financing	(7)	286,142	149,167	136,975
Term Finance Facility	(8)	8,105	8,105	-
Insurance Financing	(9)	74,903	74,903	-
		5,874,522	5,737,547	136,975
Subsidiary Finance Leases	(10)	19,878	19,006	872
		$ 5,894,400	$ 5,756,553	$ 137,847

		As of June 30, 2023		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$ 89,823	$ 89,823	$ -
Bank Overdraft Facility	(2)	-	-	-
Loan Payable Bank - Export Refinance	(3)	1,741,493	1,741,493	-
Loan Payable Bank - Running Finance	(4)	-	-	-
Loan Payable Bank - Export Refinance II	(5)	1,323,535	1,323,535	-
Loan Payable Bank - Export Refinance III	(6)	2,438,089	2,438,089	-
Sale and Leaseback Financing	(7)	321,113	148,264	172,849
Term Finance Facility	(8)	13,356	13,356	-
Insurance Financing	(9)	-	-	-
		5,927,409	5,754,560	172,849
Subsidiary Finance Leases	(10)	28,330	24,950	3,380
		$ 5,955,739	$ 5,779,510	$ 176,229

(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% as of September 30, 2023 and June 30, 2023, respectively.

(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 $365,854. The annual interest rate was 9.5% as of September 30, 2023. The total outstanding balance as of September 30, 2023 and June 30, 2023 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 September 30, 2023, NTE was in compliance with this covenant.

(3)The Company's subsidiary, NetSol PK, has an export refinance facility with Askari Bank Limited, secured by NetSol PK's assets. This is a revolving loan that matures every nine months. The total facility amount is Rs. 500,000,000 or $1,737,619 at September 30, 2023 and Rs. 500,000,000 or $1,741,493 at June 30, 2023. The interest rate for the loan was 19.0% and 17.0% at September 30, 2023 and June 30, 2023, respectively.

(4)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 $186,273, at September 30, 2023. The balance outstanding at September 30, 2023 and June 30, 2023 was Rs. Nil. The interest rate for the loan was 24.9% at September 30, 2023 and June 30, 2023.

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 September 30, 2023, NetSol PK was in compliance with this covenant.

(5)The Company's subsidiary, NetSol PK, has an export refinance facility with Samba Bank Limited, secured by NetSol PK's assets. This is a revolving loan that matures every nine months. The total facility amount is Rs. 380,000,000 or $1,320,591 and Rs. 380,000,000 or $1,323,535 at September 30, 2023 and June 30, 2023, respectively. The interest rate for the loan was 19.0% and 18.0% at September 30, 2023 and June 30, 2023, 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 September 30, 2023, NetSol PK was in compliance with these covenants.

(6)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 $3,127,715 and Rs. 900,000,000 or $3,134,687, at September 30, 2023 and June 30, 2023, respectively. NetSol PK used Rs. 700,000,000 or $2,432,667 and Rs. 700,000,000 or $2,438,089, at September 30, 2023 and June 30, 2023, respectively. The interest rate for the loan was 19.0% and 18.0% at September 30, 2023 and June 30, 2023, respectively.

(7)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 September 30, 2023, NetSol PK used Rs. 82,337,274 or $286,142 of which $136,975 was shown as long term and $149,167 as current. As of June 30, 2023, NetSol PK used Rs. 92,194,774 or $321,113 of which $172,849 was shown as long term and $148,264 as current. The interest rate for the loan was 9.0% to 16.0% at September 30, 2023, and June 30, 2023.

(8)In March 2019, the Company's subsidiary, VLS, entered into a loan agreement. The loan amount was £69,549, or $84,816, for a period of 5 years with monthly payments of £1,349, or $1,645. As of September 30, 2023, the subsidiary has used this facility up to $8,105, which was shown as current. As of June 30, 2023, the subsidiary has used this facility up to $13,356, which was shown as current. The interest rate was 6.14% at September 30, 2023 and June 30, 2023.

(9)The Company's subsidiary, VLS, finances Directors' and Officers' ("D&O") liability insurance, and the $74,903 and $nil was recorded in current maturities, at September 30, 2023 and June 30, 2023, respectively. The interest rate on this financing ranged from 9.7% to 12.7% as of September 30, 2023 and June 30, 2023.

(10)The Company leases various fixed assets under finance lease arrangements expiring in various years through 2024. The assets and liabilities under finance leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are secured by the assets themselves. Depreciation of assets under finance leases is included in depreciation expense for the three months ended September 30, 2023 and 2022.

Following are the aggregate minimum future lease payments under finance leases as of September 30, 2023:

		Amount
Minimum Lease Payments		
Within year 1	$	20,680
Within year 2		890
Total Minimum Lease Payments		21,570
Interest Expense relating to future periods		(1,692)
Present Value of minimum lease payments		19,878
Less: Current portion		(19,006)
Non-Current portion	$	872

Following are the aggregate future long term debt payments as of September 30, 2023 which consists of "Sale and Leaseback Financing (7)" and "Term Finance Facility (8)".

		Amount
Loan Payments		
Within year 1	$	157,271
Within year 2		132,104
Within year 3		4,872
Total Loan Payments		294,247
Less: Current portion		(157,272)
Non-Current portion	$	136,975

NOTE 14 - STOCKHOLDERS' EQUITY

During the three months ended September 30, 2023, the Company issued 21,963 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.

During the three months ended September 30, 2023, the Company issued 5,000 shares of common stock for services rendered by the employees of the company as part of their compensation. These shares were valued at the fair market value of $9,050.

Stock Grants

The following table summarizes stock grants awarded as compensation:

	# Number of shares		Weighted Average Grant Date Fair Value ($)
Unvested, June 30, 2023	-	$	-
Granted	26,963	$	1.81
Vested	(26,963)	$	1.81
Unvested, September 30, 2023	-	$	-

For the three months ended September 30, 2023 and 2022, the Company recorded compensation expense of $48,800 and $39,750, respectively. The weighted average grant date fair value is determined by the Company's closing stock price on the grant date.

NOTE 15– OPERATING SEGMENTS

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

The following table presents a summary of identifiable assets as of September 30, 2023 and June 30, 2023:

	As of September 30, 2023	As of June 30, 2023
Identifiable assets:		
Corporate headquarters	$ 829,095	$ 878,899
North America	7,107,857	7,344,122
Europe	8,756,636	8,716,656
Asia - Pacific	39,171,445	41,439,733
Consolidated	$ 55,865,033	$ 58,379,410

The following table presents a summary of revenue streams by segment for the three months ended September 30, 2023 and 2022:

	2023				2022			
	License fees	Subscription and support	Services	Total	License fees	Subscription and support	Services	Total
North America	$ -	$ 1,124,814	$ 283,801	1,408,615	$ 14,000	$ 1,065,048	$ 46,240	1,125,288
Europe	4,316	713,988	1,843,729	2,562,033	48,355	493,543	1,705,437	2,247,335
Asia-Pacific	1,276,133	4,673,441	4,321,959	10,271,533	187,605	4,458,243	4,687,648	9,333,496
Total	$ 1,280,449	$ 6,512,243	$ 6,449,489	$ 14,242,181	$ 249,960	$ 6,016,834	$ 6,439,325	$ 12,706,119

The following table presents a summary of operating information for the three months ended September 30:

	For the Three Months Ended September 30, 2023	2022
Revenues from unaffiliated customers:		
North America	$ 1,408,615	$ 1,125,288
Europe	2,562,033	2,247,335
Asia - Pacific	10,271,533	9,333,496
	14,242,181	12,706,119
Revenue from affiliated customers		
Asia - Pacific	-	-
	-	-
Consolidated	$ 14,242,181	$ 12,706,119
Intercompany revenue		
Europe	$ 100,317	$ 95,725
Asia - Pacific	2,620,319	1,729,953
Eliminated	$ 2,720,636	$ 1,825,678
Net income (loss) after taxes and before non-controlling interest:		
Corporate headquarters	$ (303,722)	$ 1,327,200
North America	(55,947)	(18,947)
Europe	(91,884)	(319,755)
Asia - Pacific	742,616	(1,426,469)
Consolidated	$ 291,063	$ (437,971)
Depreciation and amortization:		
North America	$ 491	$ 482
Europe	62,901	75,171
Asia - Pacific	467,394	769,350
Consolidated	$ 530,786	$ 845,003
Interest expense:		
Corporate headquarters	$ 6,121	$ 2,480
Europe	4,642	3,638
Asia - Pacific	265,254	115,492
Consolidated	$ 276,017	$ 121,610
Income tax expense:		
Asia - Pacific	$ 121,895	$ 193,348
Consolidated	$ 121,895	$ 193,348

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

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022
Capital expenditures:		
North America	$ -	$ 1,133
Europe	333,754	-
Asia - Pacific	37,876	1,346,468
Consolidated	$ 371,630	$ 1,347,601

NOTE 16 – NON-CONTROLLING INTEREST IN SUBSIDIARY

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

SUBSIDIARY	Non-Controlling Interest %	Non-Controlling Interest at September 30, 2023
NetSol PK	32.38%	$ 3,594,004
NetSol-Innovation	32.38%	(285,611)
NAMECET	32.38%	(8,825)
NetSol Thai	0.006%	(153)
OTOZ Thai	5.60%	(21,877)
OTOZ	5.59%	(75,815)
Total		$ 3,201,723

SUBSIDIARY	Non-Controlling Interest %	Non-Controlling Interest at June 30, 2023
NetSol PK	32.38%	$ 3,314,659
NetSol-Innovation	32.38%	(223,504)
NAMECET	32.38%	(5,384)
NetSol Thai	0.006%	(194)
OTOZ Thai	5.60%	(23,572)
OTOZ	5.59%	(86,952)
Total		$ 2,975,053

In September 2022, 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%.

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 September 30,	
	2023	2022
Net income (loss) attributable to NetSol	$ 30,890	$ (620,729)
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	$ 30,890	$ (500,164)

NOTE 17– 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 months ended September 30, 2023 and 2022, the Company recorded an income tax provision of $121,895 and $193,348, 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 September 30, 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, 2023, 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 our 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 our new customers to opt for a subscription-based pricing model rather than the traditional licensing model.

Our 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 our 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 — Encino, California and Austin, Texas
- Europe — London Metropolitan area and Horsham, Flintshire
- Asia Pacific — Lahore, Karachi, Bangkok, Beijing, Shanghai, Jakarta and Sydney
- Middle East — Dubai

We believe 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. We believe 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 us and a unique value for our customers. We continue to underpin our proven and effective business model which is a combination of careful cost arbitrage, subject matter expertise, domain experience, scalability and proximity with our global and regional customers.

Our primary offerings include the following:

NFS Ascent®

Covering the complete finance and leasing cycle starting from quotation origination through contract settlements, NFS Ascent® is designed and developed for a highly flexible setting and can deal with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments. The solution fully automates the entire financing/leasing cycle for companies of any size, including those with multi-billion-dollar portfolios. NFS Ascent® empowers financial institutions to effectively manage their complex lending portfolios, enabling them to thrive in hyper-competitive global markets.

NFS Ascent® is built on cutting-edge, modern technology that enables auto, equipment and big-ticket finance companies, alongside banks, to run their retail and wholesale finance business with ease. With comprehensive domain coverage and powerful configuration engines, it is well architected to empower finance and leasing companies with a platform that supports their growth in terms of business volume and transactions.

Our next generation platform offers a technologically advanced solution for the asset finance and leasing industry. NFS Ascent’s® architecture and user interfaces were designed based on our collective experience with blue chip organizations and global Fortune 500 companies over the past 40 years combined with modern 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 for multi-billion-dollar lease portfolios in compliance with various regulatory standards. NFS Ascent®, with its distributed and clustered deployment across parallel application and high-volume data servers, enables finance companies to process voluminous data in a hyper speed environment.

Our premier solution has been developed using the latest tools and technologies and its n-tier SOA architecture allows the system to greatly improve a myriad of areas including, but not limited to, scalability, performance, fault tolerance and security. NFS Ascent® empowers users with:

- Improvement in overall productivity within the delivery organization:
    - The features of the integrated Business Process Manager, Workflow Engine, Business Rule Engine and Integration Hub provide flexibility to our clients allowing them to configure certain parts of the application themselves rather than requesting customization.
    - The NFS Ascent® platform and the SOA architecture allow us to develop portals and mobile applications quickly by utilizing our existing services.
    - The n-tier architecture allows us to intelligently distribute processing and eases application maintenance. The loose coupling between various modules and layers reduces the risk of regression in other parts of the system as a result of changes made in one part of the system and follows proven and accepted SOA principles.
- Amplified customer satisfaction:
    - NFS Ascent® and NFS Digital empower not only the finance company and dealerships, but the end customer as well with self-service digital tools allowing a seamless customer experience throughout the customer journey from origination through contract maturity.

NFS ASCENT® CONSTITUENT APPLICATIONS

Omni Point of Sale (Omni POS)

A highly agile, easy-to-use, web-based application - also accessible through mobile devices - Ascent’s Omni POS system delivers an intuitive user experience, with features that enable rapid data capture. Information captured at the point of sale can be made available to anyone in an organization at any point in the lifecycle of each transaction.

Contract Management System (CMS)

Ascent’s Contract Management System (CMS) is a powerful, highly agile, functionally rich application for managing and maintaining detailed credit contracts throughout their lifecycle – from pre-activation and activation through customer management, asset financial management, billing and collections, finance and accounting, restructuring and maturity.

Wholesale Finance System (WFS)

The Ascent Wholesale Finance System (WFS) provides a powerful, seamless and efficient system for automating and managing the entire lifecycle of wholesale finance. With floor planning, dealer and inventory financing, it is ideal for a culture of collaboration. Dealers, distributors, partners and anyone in the supply chain are empowered to realize the benefits of financing – and leverage the advantages of real-time business intelligence. The system also supports asset and non-asset-based financing.

Dealer Auditor Access System (DAAS)

DAAS is a web-based solution that can be used in conjunction with WFS or any third-party wholesale finance system. It addresses the needs of dealer, distributor, and auditor access in a wholesale financing arrangement.

NFS Ascent® deployed on the cloud

Our premier, next generation solution NFS Ascent® is also available on the cloud. 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. Clients further benefit from a rapid deployment process and the ability to scale on demand.

NFS Digital

NetSol is the pioneer in the global finance and leasing industry providing a full suite of digital transformation solutions. NFS Digital is a combination of our core strengths, domain, and technology. Our insight into the evolving landscape together with our valuable experience led us to define sound digital transformation strategies and compliment them with smart digital solutions so that 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.

- **Self-Point of Sale**

  Our Self POS portal allows customers to go through the complete buying and financing process online and on their mobile devices including car configuration, generating quotations, and filling out applications. It is the ultimate origination application that enables users to compare, select and configure an asset using a mobile device anywhere, at any time and submit an accompanying financial product application.

- **Mobile Account**

  mAccount is a powerful, self-service mobile solution. It empowers the dealer with a powerful backend system and allows the customer to setup a secure account and view information 24/7 to keep track of contract status, resolve queries and make payments, reducing inbound calls for customer queries and improving turnaround time for repayments.

- **Mobile Point of Sale**

  The mPOS application is a web and mobile-enabled platform featuring a customizable dashboard along with menu selling, application submission, loan calculator, work queues and detailed reporting. mPOS empowers the dealer to make the origination process quick and seamless, increasing overall productivity and system-wide efficiency.

- **Mobile Dealer**

  mDealer provides more visibility and control over inventories – with minimal effort. Dealers can view their use of floor plan facility, stock status and financial conditions, while entering settlement requests or relocating assets.

- **Mobile Auditor**

  mAuditor schedules visits, records audit exceptions and tracks assets for higher levels of transparency. It also enables the auditor to conduct audits and submit results in real-time through quick audit processing tools, providing visibility and saving significant time.

- **Mobile Collector**

  mCollector empowers collections teams to do more, with an easy-to-use interface and intelligent architecture. The tool exponentially increases the productivity of field teams by enabling them to carry out all collection related tasks on the go.

- **Mobile Field Investigator**

  By using Mobile Field Investigator (mFI), the applicant has access to powerful features that permit detailed applicant field verifications on the go. The application features a reporting dashboard that displays progress stats, action items and the latest notifications, enabling the client to achieve daily goals while tracking performance.

Otoz™ Digital Auto Retail and Mobility Orchestration

Otoz™ provides a white-label SaaS platform to OEMs, finance companies, dealers, and start-ups that enables short and long-term on-demand mobility models (subscriptions, rental and car-sharing) and digital retail.

Our turn-key platform helps automotive companies make a move into the digital era, addressing a range of customer segments with evolving needs by offering them a seamless, omni-channel, end-to-end car buying and usage experience. It enables both direct-to-consumer transactions as well as traditional dealer models with the option to add peer-to-peer marketplace functionalities for the future of EV pay-per-use and mobility orchestration.

Digital auto-retail is not a one-size-fits-all. Otoz™ offers a flexible, configurable, and scalable platform along with a proven launch strategy framework for auto companies that intend to launch and grow digital retail and mobility businesses quickly and seamlessly.

Otoz™ Ecosystem

Otoz™ is built on state-of-the-art technology, offering open Application Programming Interfaces (APIs) and ecosystem partner integrations that are crucial to digital retail and mobility operations including finance and insurance providers, trade-in tools, KYC and fraud detection tools, CRM systems, website providers (Tier 1 – Tier 3), marketing toolkits, inventory feeds, pricing engines, tax engine, payment processors, an insurance marketplace and vehicle delivery logistics providers.

In addition, Otoz™ is equipped with intelligent lead generation and product analytics capabilities, empowering dealerships with the tools to track customer journeys, personalize customer engagements, and convert qualified leads.

Otoz™ Platform

A fully digital, white-label platform for digital auto retail and mobility orchestration that delivers an intuitive and elegant user experience, both online and offline.

Otoz™ expands into a comprehensive in-life subscription and rental platform that empowers in-life and end-of-life management of such contracts. The platform's seamless handling of complex tax rules and contract management processes are compliant with local and state standards for jurisdictions it operates in across the U.S.

Otoz™ platform consists of two portals:

- Dealer/Admin Tool
- Customer Portal

Dealer/Admin Tool

- Account creation
- Order management work queue
- User roles and rights
- Tax configurator
- Customer KYC reports
- Vehicle delivery scheduling
- Payment gateways
- Inventory management
- Finance and insurance products feed and prioritization
- Accessories/add-on management and association
- Dealer fee management
- Ecosystem APIs
- DMS integrations
- Send referral
- Deal builder

Customer Portal

- Inventory search and selection
- Multi-lender capabilities
- Deal builder and personalized pricing for purchase, lease, finance, subscription, and rentals
- Dealer-Customer-Chat tool
- Buy finance and insurance products including collision & liability insurance via integrated provider marketplaces
- Buy accessories
- License checks (paperless)
- Vehicle options and finance and insurance products
- Trade-in valuation
- Credit application and decision
- Paperless contracts and e-signing
- Digital payments
- Vehicle delivery and pick-up scheduling

AppexNow

NetSol introduced AppexNow - the first marketplace for API-first products specifically for the global credit, finance, and leasing industry. Two products have been launched under the umbrella of the AppexNow marketplace until now; i.e., Flex and Hubex. NetSol will introduce and launch further products and services under this marketplace in the future.

AppexNow: Flex

The first product offering from the AppexNow marketplace, Flex is an API-based, ready-to-use calculation engine. It is a pure play SaaS product that is cloud-based and can be integrated seamlessly into an organization's products, services, and ecosystem. The calculation engine intelligently adapts to demand by monitoring usage to maintain reliable and predictable performance at desired costs. It is a one-stop solution that guarantees precise calculations at all stages of the contract lifecycle through various calculation types.

It is a comprehensive solution which creates an ecosystem of value across multiple functions, systems and industries to fuel growth and propel businesses into the future by increasing delivery efficiency and product management, centralization through a connected ecosystem resulting in a higher ROI and a larger market share.

Flex proves versatility by covering all the calculation aspects ranging from the pricing for the end customer at inception, in-life financial modifications, the re-creation of the repayment plan, termination, amortizations/re-amortizations, among other calculation types. All the calculations are parameter-driven, which helps perform simple, multi-dimensional, or complex calculations based on the needs.

AppexNow: Hubex

Hubex is an API library that enables companies to standardize all their API integration procedures across multiple API services through a single integration. Hubex is NetSol's second product offering from the AppexNow marketplace following Flex.

In addition to traditional lending companies, Hubex can also streamline the operations of dealerships, vendors, and consultants through an API library. With a ready-to-use service, Hubex makes it easy for businesses to seamlessly connect with multiple APIs and achieve their desired outcomes. Pre-integrated services in the Hubex library include, but are not limited to, payment processing, bank account authentication, finance and insurance products, fraud check, KYC service, driver license verification, address validation, vehicle valuation and notification service.

Professional Services

We offer professional services to organizations in different regions to enable them to meet their business objectives. These services primarily consist of technical consultancy, web development, app development, digital marketing, cloud services, outsourcing and co-sourcing.

Pertaining to our professional services offerings, our highly skilled and experienced professionals include skilled software programmers, well-versed business analysists, competent quality assurance engineers, technical and solution architects, project managers, cloud native developers and architects, mobile/web app developers and automation specialists.

We enable businesses to employ the industry's best talent to help them develop and refine their technology strategy, innovate, execute their roadmap, and optimize service quality.

Amazon Web Services

We have expanded our footprint in the cloud services domain by offering services to the AWS community. We aim for our cloud services to be well recognized, expanding our reach to relevant prospects. Since AWS is the most comprehensive and highly adopted cloud offering, we are leveraging its power to ensure lower costs, increased agility, a secure environment, and innovative solutions across all domains.

Our AWS customer offerings include: analytics, data pipeline and big data services; application modernization services; database migration and modernization; development operations; managed services; and, information security services.

Artificial Intelligence

A dedicated team is under the leadership of Dr. Ali Ahmed, Chief Data Scientist at NetSol, to develop artificial intelligence and machine learning solutions. With experience in machine learning, scientific computing and computer vision, Dr. Ahmed has extensive experience in developing and implementing algorithms for industrial solutions in predictive maintenance.

Our AI team seeks to deploy AI solutions leveraging cutting-edge technologies to enable clients to optimize production, decrease downtime and provide a holistic view of their business processes.

Highlights

Listed below are a few of NetSol's highlights for the quarter ended September 30, 2023:

- The Company renegotiated to extend the NFS Ascent license term for an existing client in Thailand for another 3 years. The extension generated approximately $1.1 million in revenues.
- The Company implemented modifications requested by a number of its existing customers across multiple geographies to generate over $1.1 million in revenues.
- The Company concluded the implementation re-planning activity with one of its existing clients to generate nearly $1.7 million in revenues on top of the previously contracted revenues.
- The Company onboarded two new asset finance companies to use its recently launched product FLEX, which will further strengthen the recurring revenues of the business.
- The Company concluded its discussions with an existing customer to generate additional service revenue of approximately $1.9 million across the APAC region.
- The Company began a professional services project with the finance company of a current customer in China. This contract is expected to generate approximately $1 million in revenues for the business.
- The Company signed a professional services contract with a renowned IT consultancy firm based in the US which would generate approximately $300K in revenues over the term of the contract.

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 3.7% in 2023.

- The U.S. market remains strong and resilient for NetSol to continue investing in building local teams for its core offerings.

- The Chinese car market is expected to maintain its position as the world's largest and fastest growing, projecting 10% sales growth to 25.5 million units, with electric vehicles (EVs) representing nearly 35% of new sales. Government incentives, reduced car taxes, and preferential financing rates contributed to an 8.8% increase in Chinese auto sales in the first half of 2023, with total vehicle sales, including trucks and buses, rising by 9.8% to 13.2 million.

- 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.

- The overall size of the mobility market in the Europe and the United States is projected to increase over $425 billion combined, by 2035 or a compound CAGR of 5% from 2022. (Deloitte Global Automotive Mobility Market Simulation Tool).

- The global automotive finance market accounted for $245 billion in 2022 and is expected to more than double by 2035 at a CAGR of 7.4% according to Precedence Research.

Negative trends:

- The conflict escalating in the Middle East region has disturbed the entire area, which could cause higher global inflation amid growing concerns over sharp rise in oil prices (Guardian, October 18, 2023).

- The European Union Real GDP growth is at 0.7% annual growth rate per the World Economic Report October, 2023.

- General economic conditions in our geographic markets; inflation, geopolitical tensions, including trade wars, tariffs and/or sanctions in geographic areas; 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. The World Bank forecasts that global growth will slow to 1.7% in 2023, down from 3% forecasted last June.

- Continued interest rate increases by the U.S. Federal Reserve Board in 2023 restricting buying power for consumers.

- 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 Russell 2000 index, a major benchmark for U.S. stocks, turned negative for the year in late September 2023. The index's year-to-date performance is a loss of 0.2%.

- 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.

- Continued tensions between the U.S. and China are causing some American companies to pull out of China and move their supply chain elsewhere. (Business Insider, Aug. 28, 2023).

CHANGES IN FINANCIAL CONDITION

Quarter Ended September 30, 2023 Compared to the Quarter Ended September 30, 2022

The following table sets forth the items in our unaudited condensed consolidated statement of operations for the three months ended September 30, 2023 and 2022 as a percentage of revenues.

	For the Three Months Ended September 30,			
	2023	%	2022	%
Net Revenues:				
License fees	$ 1,280,449	9.0%	$ 249,960	2.0%
Subscription and support	6,512,243	45.7%	6,016,834	47.4%
Services	6,449,489	45.3%	6,439,325	50.7%
Total net revenues	14,242,181	100.0%	12,706,119	100.0%
Cost of revenues	8,080,164	56.7%	8,454,122	66.5%
Gross profit	6,162,017	43.3%	4,251,997	33.5%
Operating expenses:				
Selling, general and administrative	5,432,969	38.1%	5,678,561	44.7%
Research and development cost	378,419	2.7%	469,627	3.7%
Total operating expenses	5,811,388	40.8%	6,148,188	48.4%
Income (loss) from operations	350,629	2.5%	(1,896,191)	-14.9%
Other income and (expenses)				
Interest expense	(276,017)	-1.9%	(121,610)	-1.0%
Interest income	414,718	2.9%	431,857	3.4%
Gain (loss) on foreign currency exchange transactions	(134,253)	-0.9%	1,315,705	10.4%
Other income (expense)	57,881	0.4%	25,616	0.2%
Total other income (expenses)	62,329	0.4%	1,651,568	13.0%
Net income (loss) before income taxes	412,958	2.9%	(244,623)	-1.9%
Income tax provision	(121,895)	-0.9%	(193,348)	-1.5%
Net income (loss)	291,063	2.0%	(437,971)	-3.4%
Non-controlling interest	(260,173)	-1.8%	(182,758)	-1.4%
Net income (loss) attributable to NetSol	$ 30,890	0.2%	$ (620,729)	-4.9%
Net income (loss) per share:				
Net income (loss) per common share				
Basic	$ 0.003		$ (0.06)	
Diluted	$ 0.003		$ (0.06)	
Weighted average number of shares outstanding				
Basic	11,345,856		11,257,539	
Diluted	11,345,856		11,257,539	

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 15 “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 September 30,				Favorable (Unfavorable) Change in Constant Currency	Favorable (Unfavorable) Change due to Currency Fluctuation	Total Favorable (Unfavorable) Change as Reported
	2023	%	2022	%			
Net Revenues:	$ 14,242,181	100.0%	$ 12,706,119	100.0%	$ 1,575,873	$ (39,811)	$ 1,536,062
Cost of revenues:	8,080,164	56.7%	8,454,122	66.5%	(1,165,567)	1,539,525	373,958
Gross profit	6,162,017	43.3%	4,251,997	33.5%	410,306	1,499,714	1,910,020
Operating expenses:	5,811,388	40.8%	6,148,188	48.4%	(284,862)	621,662	336,800
Income (loss) from operations	$ 350,629	2.5%	$ (1,896,191)	-14.9%	$ 125,444	$ 2,121,376	$ 2,246,820

Net revenues for the three months ended September 30, 2023 and 2022 are broken out among the segments as follows:

	2023		2022	
	Revenue	%	Revenue	%
North America	$ 1,408,615	9.9%	$ 1,125,288	8.9%
Europe	2,562,033	18.0%	2,247,335	17.7%
Asia-Pacific	10,271,533	72.1%	9,333,496	73.5%
Total	$ 14,242,181	100.0%	$ 12,706,119	100.0%

Revenues

<u>License fees</u>

License fees for the three months ended September 30, 2023 were $1,280,449 compared to $249,960 for the three months ended September 30, 2022 reflecting an increase of $1,030,489 with an increase in constant currency of $1,250,079. During the three months ended September 30, 2023, we recognized approximately $1,142,000 related to the license renewal with an existing customer. During the three months ended September 30, 2022, we recognized approximately $188,000 related to a new agreement with the Government of Khyber Pakhtunkhwa for the sale of our Ascent® product.

Subscription and support

Subscription and support fees for the three months ended September 30, 2023 were $6,512,243 compared to $6,016,834 for the three months ended September 30, 2022 reflecting an increase of $495,409 with an increase in constant currency of $499,159. 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 September 30, 2023 was $6,449,489 compared to $6,439,325 for the three months ended September 30, 2022 reflecting an increase of $10,164 with an increase in constant currency of $76,595.

Gross Profit

The gross profit was $6,162,067, for the three months ended September 30, 2023 compared with $4,251,997 for the three months ended September 30, 2022. This is an increase of $1,910,020 with an increase in constant currency of $410,306. The gross profit percentage for the three months ended September 30, 2023 also increased to 43.3% from 33.5% for the three months ended September 30, 2022. The cost of sales was $8,080,164 for the three months ended September 30, 2023 compared to $8,454,122 for the three months ended September 30, 2022 for a decrease of $373,958 and on a constant currency basis an increase of $1,165,567. As a percentage of sales, cost of sales decreased from 66.5% for the three months ended September 30, 2022 to 56.7% for the three months ended September 30, 2023.

Salaries and consultant fees decreased by $128,592 from $6,086,735 for the three months ended September 30, 2022 to $5,958,143 for the three months ended September 30, 2023 and on a constant currency basis increased by $962,826. The increase on a constant currency basis is due to annual salary raises. As a percentage of sales, salaries and consultant expense decreased from 47.9% for the three months ended September 30, 2022 to 41.8% for the three months ended September 30, 2023.

Travel expenses were $660,367 for the three months ended September 30, 2023 compared to $392,345 for the three months ended September 30, 2022 for an increase of $268,022 with an increase in constant currency of $389,142. The increase in travel expense is due to the increase in travel as countries have been lifting travel restrictions. As a percentage of sales, travel expense increased from 3.1% for the three months ended September 30, 2022 to 4.6% for the three months ended September 30, 2023.

Depreciation and amortization expense decreased to $392,983 compared to $654,049 for the three months ended September 30, 2022 or a decrease of $261,066 and on a constant currency basis a decrease of $140,417. The decrease is primarily attributed to the full amortization of capitalized software costs in the quarter ending September 30, 2023.

Other costs decreased to $1,068,671 for the three months ended September 30, 2023 compared to $1,320,993 for the three months ended September 30, 2022 or a decrease of $252,322 and on a constant currency basis a decrease of $45,984.

Operating Expenses

Operating expenses were $5,811,388 for the three months ended September 30, 2023 compared to $6,148,188, for the three months ended September 30, 2022 for a decrease of $336,800 and on a constant currency basis an increase of $284,862. As a percentage of sales, it decreased from 48.4% to 40.8%. The increase in operating expenses on a constant currency basis was primarily due to increases in selling and marketing expenses, salaries and wages, professional services, and provision for doubtful debts, offset by a decrease in other general and administrative expenses.

Selling expenses were $1,708,865 for the three months ended September 30, 2023 compared to $1,762,177, for the three months ended September 30, 2022 for a decrease of $53,312 and on a constant currency basis an increase of $155,473.

General and administrative expenses were $3,586,301 for the three months ended September 30, 2023 compared to $3,725,430 for the three months ended September 30, 2022 or a decrease of $139,129 and on a constant currency basis an increase of $161,886. During the three months ended September 30, 2023, salaries increased by approximately $79,101 and increased $284,266 on a constant currency basis, and other general and administrative expenses decreased approximately $218,230 or decreased by $122,380 on a constant currency basis.

Research and development cost was $378,419 for the three months ended September 30, 2023 compared to $469,627, for the three months ended September 30, 2022 for a decrease of $91,208 and on a constant currency basis an increase of $5,279.

Income/Loss from Operations

Income from operations was $350,629 for the three months ended September 30, 2023 compared to a loss of $1,896,191 for the three months ended September 30, 2022. This represents an increase in income of $2,246,820 with an increase in income of $125,444 on a constant currency basis for the three months ended September 30, 2023 compared with the three months ended September 30, 2022. As a percentage of sales, income from operations was 2.5% for the three months ended September 30, 2023 compared to loss of 14.9% for the three months ended September 30, 2022.

Other Income and Expense

Other income was $62,329 for the three months ended September 30, 2023 compared to $1,651,568 for the three months ended September 30, 2022. This represents a decrease of $1,589,239 with a decrease of $1,570,221 on a constant currency basis. The decrease 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 September 30, 2023, we recognized a loss of $134,253 in foreign currency exchange transactions compared to gain of $1,315,705 for the three months ended September 30, 2022. During the three months ended September 30, 2023, the value of the U.S. dollar increased 0.2% and the Euro decreased 2.6%, compared to the PKR. During the three months ended September 30, 2022, the value of the U.S. dollar and the Euro increased 11.0% and 4.11%, respectively, compared to the PKR.

Non-controlling Interest

For the three months ended September 30, 2023, the net income attributable to non-controlling interest was $260,173, compared to $182,758 for the three months ended September 30, 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 $30,890 for the three months ended September 30, 2023 compared to a net loss of $620,729 for the three months ended September 30, 2022. This is an increase in income of $651,619 with an increase in loss of $835,295 on a constant currency basis, compared to the prior year. For the three months ended September 30, 2023, net income per share was $0.003 for basic and diluted shares compared to net loss per share of $0.06 for basic and diluted shares for the three months ended September 30, 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 months ended September 30, 2023 and 2022 are as follows:

	For the Three Months Ended September 30,	
	2023	2022
Net Income (loss) attributable to NetSol	$ 30,890	$ (620,729)
Non-controlling interest	260,173	182,758
Income taxes	121,895	193,348
Depreciation and amortization	530,786	845,003
Interest expense	276,017	121,610
Interest (income)	(414,718)	(431,857)
EBITDA	$ 805,043	$ 290,133
Add back:		
Non-cash stock-based compensation	60,354	81,834
Adjusted EBITDA, gross	$ 865,397	$ 371,967
Less non-controlling interest (a)	(399,423)	(399,535)
Adjusted EBITDA, net	$ 465,974	$ (27,568)
Weighted Average number of shares outstanding		
Basic	11,345,856	11,257,539
Diluted	11,345,856	11,257,539
Basic adjusted EBITDA	$ 0.04	$ (0.002)
Diluted adjusted EBITDA	$ 0.04	$ (0.002)

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

	2023	2022
Net Income (loss) attributable to non-controlling interest	$ 260,173	$ 182,758
Income Taxes	36,377	59,910
Depreciation and amortization	141,334	238,333
Interest expense	85,889	37,396
Interest (income)	(128,091)	(132,489)
EBITDA	$ 395,682	$ 385,908
Add back:		
Non-cash stock-based compensation	3,741	13,627
Adjusted EBITDA of non-controlling interest	$ 399,423	$ 399,535

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was $16,551,677 at September 30, 2023, compared to $15,533,254 at June 30, 2023.

Net cash provided by operating activities was $1,663,619 for the three months ended September 30, 2023 compared to $1,298,857 for the three months ended September 30, 2022. At September 30, 2023, we had current assets of $38,675,408 and current liabilities of $18,268,130. We had accounts receivable of $6,870,956 at September 30, 2023 compared to $11,714,422 at June 30, 2023. We had revenues in excess of billings of $13,733,160 at September 30, 2023 compared to $12,377,677 at June 30, 2023 of which $724,875 and $nil is shown as long term as of September 30, 2023 and June 30, 2023, respectively. The long-term portion was discounted by $98,103 and $nil at September 30, 2023 and June 30, 2023, respectively, using the discounted cash flow method with an interest rate of 7.24%. During the three months ended September 30, 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 $3,487,983 from $24,092,099 at June 30, 2023 to $20,604,116 at September 30, 2023. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to $6,802,879 and $5,756,553, respectively at September 30, 2023. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to $6,552,181 and $5,779,510, respectively, at June 30, 2023.

The average days sales outstanding for the three months ended September 30, 2023 and 2022 were 144 and 165 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 $370,400 for the three months ended September 30, 2023, compared to $893,994 for the three months ended September 30, 2022. We had purchases of property and equipment of $371,630 compared to $1,347,601 for the three months ended September 30, 2022.

Net cash used in financing activities was $44,474 for the three months ended September 30, 2023, compared to $445,737 for the three months ended September 30, 2022. During the three months ended September 30, 2023, we had net payments for bank loans and finance leases of $44,474 compared to $445,737 for the three months ended September 30, 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 13 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 September 30, 2023, we had approximately $16.6 million of cash, cash equivalents and marketable securities of which approximately $15.2 million is held by our foreign subsidiaries. As of June 30, 2023, we had approximately $15.5 million of cash, cash equivalents and marketable securities of which approximately $13.5 million is held by our foreign subsidiaries.

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

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

Financial Covenants

Our UK based subsidiary, NTE, has an approved overdraft facility of £300,000 ($365,854) 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 ($1,737,619) and a running finance facility of Rupees 53 million ($186,273). NetSol PK has an approved facility for export refinance from another Habib Metro Bank Limited amounting to Rupees 900 million ($3,127,715). 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 ($1,320,591) from Samba Bank Limited. During the loan tenure, 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, 2023.

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 September 30, 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

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended June 30, 2023, filed with the SEC on September 22, 2023. Any of such factors could result in a significant or material adverse effect on our result of operations or financial conditions. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

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

On October 24, 2023, and effective retroactively to October 2, 2023, the Board of Directors adopted a Clawback Policy intended to comply with the requirements of the Dodd-Frank Act, SEC rules and regulations and NASDAQ listing rules. The policy is attached hereto as exhibit 10.1.

Item 6. Exhibits

10.1	NetSol Technologies, Inc. Clawback Policy adopted effective October 2, 2023
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:	November 7, 2023	*/s/ Najeeb U. Ghauri*
		NAJEEB U. GHAURI Chief Executive Officer
Date:	November 7, 2023	*/s/Roger K. Almond*
		ROGER K. ALMOND Chief Financial Officer Principal Accounting Officer

Exhibit 10.1

NETSOL TECHNOLOGIES, INC.
CLAWBACK POLICY

1. Introduction and Purpose

1.1 Introduction. This document sets forth the NetSol Technologies, Inc. Clawback Policy (the "Policy"), as effective October 2, 2023.

1.2 Purpose. The Board of Directors (the "Board") of NetSol Technologies, Inc. (the "Company") believes that it is in the best interests of the Company and its shareholders to adopt this Policy, which provides for the recovery of certain incentive compensation in the event of an Accounting Restatement (as defined below). This Policy is designed to comply with Section 10D and Rule 10D-1 of the Exchange Act ("Rule 10D-1") and Nasdaq Listing Rule 5608 (the "Listing Standards"). This Policy has been established to appropriately align the interests of the executives of the Company, who have been designated as Covered Executives, with those of the Company and to provide for the recovery of (i) Erroneously Awarded Compensation from Section 16 Officers, and (ii) Recoverable Amounts from Covered Executives.

2. Administration

Except as specifically set forth herein, this Policy shall be administered by the Board or, if so, designated by the Board, a committee thereof (the Board or such committee charged with administration of this Policy, the "Administrator"). The Administrator is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. Any determinations made by the Administrator shall be final and binding on all affected individuals and need not be uniform with respect to each individual covered by the Policy. In the administration of this Policy, the Administrator is authorized and directed to consult with the full Board or such other committees of the Board, such as the Audit Committee or the Compensation Committee, as may be necessary or appropriate as to matters within the scope of such other committee's responsibility and authority. Subject to any limitation at applicable law, the Administrator may authorize and empower any officer or employee of the Company to take any and all actions necessary or appropriate to carry out the purpose and intent of this Policy (other than with respect to any recovery under this Policy involving such officer or employee).

3. Definitions

As used in this Policy, the following definitions shall apply:

- "Accounting Restatement" means an accounting restatement of the Company's financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.
- "Administrator" has the meaning set forth in Section 2 hereof.
- "Applicable Period" means the three completed fiscal years immediately preceding the date on which the Company is required to prepare an Accounting Restatement, as well as any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year).
- The "date on which the Company is required to prepare an Accounting Restatement" is the earlier to occur of (a) the date the CFO, Audit Committee or Board concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement or (b) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement, in each case regardless of if or when the restated financial statements are filed.
- "Covered Executives" means the Company's current and former executive officers, as determined by the Administrator in accordance with the definition of executive officer set forth in Rule 10D-1 and the Listing Standards.

- "Executive officer" Company's current or former Executive Officers as defined under the Exchange Act Rule 16a-1 (f). It is defined further as:

  - President
  - Principal Financial Officer
  - Principal Accounting Officer
  - Any Vice President in charge of principal business unit, division, or function
  - Any Officer who performs policy making function
  - Any other person who makes similar policy making function for the Company Executive officers of the Company's subsidiaries are deemed executive officers of the Company if they perform such significant policy making functions for the Company

- "Erroneously Awarded Compensation" has the meaning set forth in Section 6 of this Policy
- A "Financial Reporting Measure" is any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure. Financial Reporting Measures include but are not limited to the following (and any measures derived from the following): Company stock price; total shareholder return ("TSR"); revenues; net income; operating income; profitability of one or more reportable segments; financial ratios (e.g., accounts receivable turnover and inventory turnover rates); earnings before interest, taxes, depreciation and amortization ("EBITDA"); funds from operations and adjusted funds from operations; liquidity measures (e.g., working capital, operating cash flow); return measures (e.g., return on invested capital, return on assets); earnings measures (e.g., earnings per share); cost per employee, where cost is subject to an Accounting Restatement; any of such financial reporting measures relative to a peer group, where the Company's financial reporting measure is subject to an Accounting Restatement; and tax basis income. A Financial Reporting Measure need not be presented within the Company's financial statements or included in a filing with the Securities Exchange Commission
- "Incentive-Based Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive-Based Compensation is "received" for purposes of this Policy in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of such Incentive-Based Compensation occurs after the end of that period

4. <u>Covered Executives; Incentive-Based Compensation</u>

This Policy applies to Incentive-Based Compensation received by a Covered Executive (a) after beginning services as a Covered Executive; (b) if that person served as a Covered Executive at any time during the performance period for such Incentive-Based Compensation; and (c) while the Company had a listed class of securities on a national securities exchange.

5. **<u>Required Recoupment of Erroneously Awarded Compensation in the Event of an Accounting Restatement</u>**

In the event the Company is required to prepare an Accounting Restatement, the Company shall promptly recoup the amount of any Erroneously Awarded Compensation received by any Covered Executive, as calculated pursuant to Section 6 hereof, during the Applicable Period.

6. **<u>Erroneously Awarded Compensation: Amount Subject to Recovery</u>**

6.1 The amount of "Erroneously Awarded Compensation" subject to recovery under the Policy, as determined by the Administrator, is the amount of Incentive-Based Compensation received by the Covered Executive that exceeds the amount of Incentive Based Compensation that would have been received by the Covered Executive had it been determined based on the restated amounts. Erroneously Awarded Compensation shall be computed by the Administrator without regard to any taxes paid by the Covered Executive in respect of the Erroneously Awarded Compensation (i.e., the amounts recovered shall be on pre-tax basis). By way of example, with respect to any compensation plans or programs that take into account Incentive-Based Compensation, the amount of Erroneously Awarded Compensation subject to recovery hereunder includes, but is not limited to, the amount contributed to any notional account based on Erroneously Awarded Compensation and any earnings accrued to date on that notional amount.

6.2 For Incentive-Based Compensation based on stock price or TSR: (a) the Administrator shall determine the amount of Erroneously Awarded Compensation based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive-Based Compensation was received; and (b) the Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to the Nasdaq Stock Market ("Nasdaq"). Erroneously Awarded Compensation shall not include executive officer or from any individual who is an executive officer on the date on which the Company is required to prepare an Accounting Restatement but who was not an executive officer at any time during the performance period for which the incentivebased compensation is received. For example, if an individual serving as an executive officer at the date that the Company is required to prepare a restatement was not an executive officer at any time during a performance period that ended during the Applicable Period, amounts of incentive compensation received by that individual for that specific performance period are not required to be recovered.

7. Method of Recoupment

7.1 The Administrator shall determine, in its sole discretion, the timing and method for promptly recouping Erroneously Awarded Compensation hereunder, which may include without limitation (a) seeking reimbursement of all or part of any cash or equity-based award, (b) cancelling prior cash or equity-based awards, whether vested or unvested or paid or unpaid, (c) cancelling or offsetting against any planned future cash or equity-based awards, (d) forfeiture of deferred compensation, subject to compliance with Section 409A of the Internal Revenue Code and the regulations promulgated thereunder and (e) any other method authorized by applicable law or contract. Subject to compliance with any applicable law, the Administrator may affect recovery under this Policy from any amount otherwise payable to the Covered Executive, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses or commissions and compensation previously deferred by the Covered Executive.

7.2 The Company is authorized and directed pursuant to this Policy to recoup Erroneously Awarded Compensation in compliance with this Policy unless the Compensation Committee has determined that recovery would be impracticable solely for the following limited reasons, and subject to the following procedural and disclosure requirements:

- The direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Administrator must make a reasonable attempt to recover such erroneously awarded compensation, document such reasonable attempt(s) to recover and provide that documentation to Nasdaq;

- Recovery would violate home country law of the issuer where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of the state and federal law applicable to the Company. The Administrator must satisfy the applicable opinion and disclosure requirements of Rule 10D-1 and the Listing Standards; or

- Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

8. No Indemnification of Covered Executives

Notwithstanding the terms of any indemnification or insurance policy or any contractual arrangement with any Covered Executive that may be interpreted to the contrary, the Company shall not indemnify any Covered Executives against the loss of any Erroneously Awarded Compensation, including any payment or reimbursement for the cost of third-party insurance purchased by any Covered Executives to fund potential clawback obligations under this Policy.

9. Administrator Indemnification

Any members of the Administrator, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company to the fullest extent under applicable law and Company policy with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy.

10. Effective Date; Retroactive Application

This Policy shall be effective as of October 2, 2023 (the "Effective Date"). The terms of this Policy shall apply to any Incentive-Based Compensation that is received by Covered Executives on or after the Effective Date, even if such Incentive-Based Compensation was approved, awarded, granted or paid to Covered Executives prior to the Effective Date. Without limiting the generality of this Section 10 hereof, and subject to applicable law, the Administrator may affect recovery under this Policy from any amount of compensation approved, awarded, granted, payable or paid to the Covered Executive prior to, on or after the Effective Date.

11. Amendment; Termination

The Board may amend, modify, supplement, rescind or replace all or any portion of this Policy at any time and from time to time in its discretion, and shall amend this Policy as it deems necessary to comply with applicable law or any rules or standards adopted by a Nasdaq.

12. Other Recoupment Rights; Company Claims

The Board intends that this Policy shall be applied to the fullest extent of the law. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company under applicable law or pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company. Nothing contained in this Policy, and no recoupment or recovery as contemplated by this Policy, shall limit any claims, damages or other legal remedies the Company or any of its affiliates may have against a Covered Executive arising out of or resulting from any actions or omissions by the Covered Executive.

13. Successors

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

14. Exhibit Filing Requirement

A copy of this Policy and any amendments thereto shall be filed as an exhibit to the Company's annual report on Form 10-K.

Exhibit 31.1

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 September 30, 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: November 7, 2023

/s/Najeeb Ghauri

Najeeb Ghauri,
Chief Executive Officer
Principal executive officer

Exhibit 31.2

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 September 30, 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: November 7, 2023

/s/ Roger K. Almond

Roger K. Almond
Chief Financial Officer
Principal Accounting Officer

Exhibit 32.1

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 September 30, 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: November 7, 2023

/s/ Najeeb Ghauri

Najeeb Ghauri,
Chief Executive Officer
Principal Executive Officer

Exhibit 32.2

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 September 30, 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: November 7, 2023

/s/Roger K. Almond

Roger K. Almond
Chief Financial Officer
Principal Accounting Officer