NETSOL TECHNOLOGIES INC
Form 10-Q
February 13, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2018

( ) For the transition period from __________ to __________

Commission file number: 0-22773

NETSOL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

Yes [X] No [ ]

Indicate by 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 [X] No [ ]

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

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

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

Yes [ ] No [X]

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

NETSOL TECHNOLOGIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

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

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

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

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2018	2017	2018	2017
Net Revenues:				
License fees	$4,817,569	$235,932	$10,773,682	$561,998
Maintenance fees	3,534,693	3,568,448	7,173,020	7,042,173
Services	8,237,334	9,087,191	14,655,968	16,104,928
License fees - related party	-	217,105	-	261,513
Maintenance fees - related party	127,030	101,251	228,379	204,214
Services - related party	286,001	1,236,508	568,123	3,090,385
Total net revenues	17,002,627	14,446,435	33,399,172	27,265,211
Cost of revenues:				
Salaries and consultants	4,497,054	5,362,092	9,517,616	10,826,252
Travel	1,706,182	287,901	2,858,179	801,013
Depreciation and amortization	880,048	1,168,103	1,817,652	2,341,216
Other	1,060,772	939,986	2,109,096	1,796,568
Total cost of revenues	8,144,056	7,758,082	16,302,543	15,765,049
Gross profit	8,858,571	6,688,353	17,096,629	11,500,162
Operating expenses:				
Selling and marketing	2,048,303	1,932,140	3,749,629	3,643,436
Depreciation and amortization	193,779	222,785	406,011	468,658
General and administrative	4,002,059	4,026,706	8,408,779	7,814,264
Research and development cost	424,652	189,891	742,807	374,976
Total operating expenses	6,668,793	6,371,522	13,307,226	12,301,334
Income (loss) from operations	2,189,778	316,831	3,789,403	(801,172)
Other income and (expenses)				
Gain (loss) on sale of assets	(3,504)	(8,939)	48,790	(16,069)
Interest expense	(63,804)	(109,675)	(163,238)	(227,746)
Interest income	230,421	115,570	479,385	252,481
Gain on foreign currency exchange transactions	2,536,755	1,737,967	2,547,667	2,754,329
Share of net loss from equity investment	(298,293)	(203,336)	(597,984)	(270,898)
Other income	4,503	14,511	9,882	15,610
Total other income (expenses)	2,406,078	1,546,098	2,324,502	2,507,707
Net income before income taxes	4,595,856	1,862,929	6,113,905	1,706,535

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

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

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

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

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

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

	For the Six Months Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$5,612,119	$1,480,737
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,223,663	2,809,874
Share of net loss from investment under equity method	597,984	270,898
(Gain) loss on sale of assets	(48,790)	16,069
Stock based compensation	869,743	833,530
Changes in operating assets and liabilities:		
Accounts receivable	4,208,751	(13,231,059)
Accounts receivable - related party	(219,538)	(1,637,829)
Revenues in excess of billing	(7,633,216)	602,676
Revenues in excess of billing - related party	(91,279)	(32,308)
Other current assets	(1,409,746)	(524,547)
Accounts payable and accrued expenses	139,331	887,824
Unearned revenue	(1,094,375)	6,469,146
Net cash provided by (used in) operating activities	3,154,647	(2,054,989)
Cash flows from investing activities:		
Purchases of property and equipment	(1,441,237)	(543,123)
Sales of property and equipment	519,645	193,241
Convertible note receivable - related party	(1,033,000)	(500,000)
Investment in WRLD3D	-	(50,000)
Net cash used in investing activities	(1,954,592)	(899,882)
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	65,000	215,311
Proceeds from exercise of subsidiary options	2,650	7,755
Purchase of treasury stock	-	(601,020)
Dividend paid by subsidiary to non-controlling interest	(566,465)	(417,853)
Proceeds from bank loans	382,240	708,457
Payments on capital lease obligations and loans - net	(289,027)	(361,814)
Net cash used in financing activities	(405,602)	(449,164)
Effect of exchange rate changes	(2,562,502)	(764,269)
Net decrease in cash and cash equivalents	(1,768,049)	(4,168,304)
Cash and cash equivalents at beginning of the period	22,088,853	14,172,954
Cash and cash equivalents at end of period	$20,320,804	$10,004,650

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

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

	For the Six Months Ended December 31,	
	2018	2017
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$170,571	$189,769
Taxes	$435,659	$226,098
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Provided services for investment in WRLD3D	$-	$553,678
Assets acquired under capital lease	$66,256	$113,220

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

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s annual report on Form 10-K for the year ended June 30, 2018. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

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

<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”)

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

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

Ascent Europe Ltd. (“AEL”)

Majority-owned Subsidiaries

NetSol Technologies, Ltd. (“NetSol PK”)

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

NetSol Technologies Thailand Limited (“NetSol Thai”)

Virtual Lease Services Holdings Limited (“VLSH”)

Virtual Lease Services Limited (“VLS”)

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

NOTE 2 – ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The areas requiring significant estimates are provision for doubtful accounts, provision for taxation, useful life of depreciable assets, useful life of intangible assets, contingencies, and estimated contract costs. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results could differ from those estimates.

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

Concentration of Credit Risk

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

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

Fair Value of Financial Instruments

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

The three levels of valuation hierarchy are defined as follows:

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

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

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

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

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

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

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

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

New Accounting Pronouncements

Recent Accounting Standards Adopted by the Company:

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

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

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

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

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

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

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

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

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

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

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

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

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

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

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

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

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

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

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

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

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

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

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

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

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

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

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

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* The ASU was issued to address the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liabilities and equity. The ASU, among other things, eliminates the need to consider the effects of down round features when analyzing convertible debt, warrants and other financing instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. The amendments are effective for fiscal years beginning after December 15, 2018, and should be applied retrospectively. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

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

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

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

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

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

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

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NOTE 3 – REVENUE RECOGNITION

The Company determines revenue recognition through the following steps:

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

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

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

Core Revenue

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

Non-Core Revenue

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

Performance Obligations

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

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

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

Subscription

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

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Software Licenses

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

Maintenance

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

Professional Services

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

BPO and Internet Services

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

Disaggregated Revenue

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

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

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

Significant Judgments

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

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

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

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

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

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

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

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

Contract Balances

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

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

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

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

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

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

Deferred Revenue

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

Practical Expedients and Exemptions

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

Application

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

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

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

Modified Retrospective Transition Adjustments

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

Costs to Obtain a Contract

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

NETSOL TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(UNAUDITED)

NOTE 4 – EARNINGS PER SHARE

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

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

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

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

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

For the Three Months Ended December 31,		For the Six Months Ended December 31,	
2018	2017	2018	2017