NETSOL TECHNOLOGIES INC
Form 10-Q
February 12, 2015

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, 2014

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

For the transition period from __________ to __________

Commission file number: 0-22773

NETSOL TECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

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

Incorporation or Organization)

24025 Park Sorrento, Suite 410, Calabasas, CA 91302

(Address of principal executive offices) (Zip Code)

(818) 222-9195 / (818) 222-9197

(Issuer's telephone/facsimile numbers, including area code)

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

Yes [X] No [ ]

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

Large Accelerated Filer [ ]   Accelerated Filer [ ]

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

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

Yes [ ] No [X]

The issuer had 9,826,463 shares of its $.01 par value Common Stock and no Preferred Stock issued and outstanding as of February 4, 2015.

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, 2014	As of June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$13,486,526	$11,462,695
Restricted cash	90,000	2,528,844
Accounts receivable, net of allowance of $1,058,214 and $1,088,172	7,706,162	5,403,165
Accounts receivable, net - related party	2,123,567	2,232,610
Revenues in excess of billings	3,098,226	2,377,367
Other current assets	2,564,116	2,857,879
Total current assets	29,068,597	26,862,560
Property and equipment, net	27,543,489	29,721,128
Intangible assets, net	26,030,664	28,803,018
Goodwill	9,516,568	9,516,568
Total assets	$92,159,318	$94,903,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$4,971,101	$5,234,887
Current portion of loans and obligations under capitalized leases	3,217,397	5,791,258
Unearned revenues	8,141,083	3,239,852
Common stock to be issued	721,592	347,518
Total current liabilities	17,051,173	14,613,515
Long term loans and obligations under capitalized leases; less current maturities	1,082,310	1,532,080
Total liabilities	18,133,483	16,145,595
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 500,000 shares authorized;	-	-
Common stock, $.01 par value; 14,500,000 shares authorized; 9,743,850 and 9,150,889 issued and outstanding as of December 31, 2014 and June 30, 2014	97,439	91,509
Additional paid-in-capital	117,834,686	115,394,097
Treasury stock	(415,425)	(415,425)

Accumulated deficit	(38,382,498)	(35,177,303)
Stock subscription receivable	(2,280,488)	(2,280,488)
Other comprehensive loss	(16,208,648)	(14,979,223)
Total NetSol stockholders' equity	60,645,066	62,633,167
Non-controlling interest	13,380,769	16,124,512
Total stockholders' equity	74,025,835	78,757,679
Total liabilities and stockholders' equity	$92,159,318	$94,903,274

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,	
	2014	2013	2014	2013
Net Revenues:				
License fees	$2,100,715	$455,616	$3,685,268	$2,708,183
Maintenance fees	3,329,587	2,867,195	6,178,228	5,247,604
Services	5,567,826	3,974,591	9,965,783	7,294,814
Services - related party	1,354,476	1,256,899	2,750,476	2,224,442
Total net revenues	12,352,604	8,554,301	22,579,755	17,475,043
Cost of revenues:				
Salaries and consultants	4,298,900	3,160,760	8,415,117	6,420,551
Travel	590,353	347,670	1,012,224	736,255
Depreciation and amortization	1,800,753	1,120,363	3,602,320	2,046,678
Other	662,046	1,006,465	1,336,909	1,695,009
Total cost of revenues	7,352,052	5,635,258	14,366,570	10,898,493
Gross profit	5,000,552	2,919,043	8,213,185	6,576,550
Operating expenses:				
Selling and marketing	1,574,955	893,781	2,707,315	1,948,922
Depreciation and amortization	438,003	430,947	1,018,776	857,564
General and administrative	3,911,754	2,997,431	7,587,510	6,404,431
Research and development cost	80,437	55,114	146,702	113,802
Total operating expenses	6,005,149	4,377,273	11,460,303	9,324,719
Loss from operations	(1,004,597)	(1,458,230)	(3,247,118)	(2,748,169)
Other income and (expenses)				
Loss on sale of assets	(69,543)	(175,237)	(80,595)	(189,032)
Interest expense	(47,265)	(92,738)	(120,358)	(161,955)
Interest income	106,078	39,931	163,997	72,785
Gain (loss) on foreign currency exchange transactions	(421,082)	96,039	(341,862)	1,207,462
Other income	18,162	59	18,539	665
Total other income (expenses)	(413,650)	(307,786)	(360,279)	763,277
Net loss before income taxes	(1,418,247)	(1,766,016)	(3,607,397)	(1,984,892)
Income tax provision	(87,683)	(29,270)	(127,759)	(40,401)
Net loss from continuing operations	(1,505,930)	(1,795,286)	(3,735,156)	(2,025,293)
Loss from discontinued operations	-	(145,527)	-	(378,468)
Net loss	(1,505,930)	(1,940,813)	(3,735,156)	(2,403,761)
Non-controlling interest	138,764	313,905	529,961	(320,262)
Net loss attributable to NetSol	$(1,367,166)	$(1,626,908)	$(3,205,195)	$(2,724,023)

Amount attributable to NetSol common shareholders:				
Loss from continuing operations	$(1,367,166)	$(1,481,381)	$(3,205,195)	$(2,345,555)
Loss from discontinued operations	-	(145,527)	-	(378,468)
Net loss	$(1,367,166)	$(1,626,908)	$(3,205,195)	$(2,724,023)
Net loss per share:				
Net loss per share from continuing operations:				
Basic	$(0.14)	$(0.16)	$(0.34)	$(0.26)
Diluted	$(0.14)	$(0.16)	$(0.34)	$(0.26)
Net loss per share from discontinued operations:				
Basic	$-	$(0.02)	$-	$(0.04)
Diluted	$-	$(0.02)	$-	$(0.04)
Net loss per common share				
Basic	$(0.14)	$(0.18)	$(0.34)	$(0.30)
Diluted	$(0.14)	$(0.18)	$(0.34)	$(0.30)
Weighted average number of shares outstanding				
Basic	9,654,334	9,056,024	9,433,829	9,006,015
Diluted	9,654,334	9,056,024	9,433,829	9,006,015

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 COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
Net loss	$(1,367,166)	$(1,626,908)	$(3,205,195)	$(2,724,023)
Other comprehensive income (loss):				
Translation adjustment	1,116,563	(420,309)	(1,909,466)	(3,843,025)
Comprehensive income (loss)	(250,603)	(2,047,217)	(5,114,661)	(6,567,048)
Comprehensive income (loss) attributable to non-controlling interest	390,434	(40,980)	(680,041)	(1,261,514)
Comprehensive income (loss) attributable to NetSol	$(641,037)	$(2,006,237)	$(4,434,620)	$(5,305,534)

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

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

(UNAUDITED)

	For the Six Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(3,735,156)	$(2,403,761)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,621,096	3,144,948
Provision for bad debts	-	259,306
Share of net loss from investment under equity method	-	166,648
Loss on sale of assets	80,595	189,032
Stock issued for services	606,536	640,247
Fair market value of warrants and stock options granted	311,244	158,783
Changes in operating assets and liabilities:		
Accounts receivable	(2,279,774)	(1,246,995)
Accounts receivable - related party	40,907	(842,503)
Revenues in excess of billing	(765,672)	8,612,283
Other current assets	286,838	367,741
Accounts payable and accrued expenses	59	1,388,473
Unearned revenue	4,857,469	2,228,992
Net cash provided by operating activities	4,024,142	12,663,194
Cash flows from investing activities:		
Purchases of property and equipment	(1,772,866)	(6,059,596)
Sales of property and equipment	179,904	78,678
Purchase of non-controlling interest in subsidiaries	(577,222)	(17,853)
Increase in intangible assets	-	(2,312,919)
Net cash used in investing activities	(2,170,184)	(8,311,690)
Cash flows from financing activities:		
Proceeds from sale of common stock	1,610,000	-
Proceeds from the exercise of stock options and warrants	116,400	560,500
Proceeds from exercise of subsidiary options	-	311,709
Restricted cash	2,438,844	(660,672)
Dividend paid by subsidiary to Non controlling interest	(780,106)	(266,343)
Proceeds from bank loans	57,405	1,276,505
Payments on capital lease obligations and loans - net	(2,867,974)	(781,756)
Net cash provided by financing activities	574,569	439,943
Effect of exchange rate changes	(404,696)	(1,084,723)
Net increase in cash and cash equivalents	2,023,831	3,706,724
Cash and cash equivalents, beginning of the period	11,462,695	7,874,318
Cash and cash equivalents, end of period	$13,486,526	$11,581,042

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,	
	2014	2013
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$107,418	$152,239
Taxes	$74,850	$213,957
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Stock issued for the payment of vendors	$-	$210,060

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

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO THE 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, healthcare, 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.

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, 2014. 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 Limited (“Australia”)

NetSol Technologies Europe Limited (“NTE”)

NetSol Technologies Limited (“NetSol UK”)

NTPK (Thailand) Co. Limited ("NTPK Thailand")

NetSol Technologies Thailand Limited ("NetSol Thai")

NetSol Technologies (Beijing) Co. Ltd. ("NetSol Beijing")

NetSol Omni (Private) Ltd. ("Omni")

NetSol Technologies (GmbH) ("NTG")

Majority-owned Subsidiaries

NetSol Technologies, Ltd. ("NetSol PK")

NetSol Innovation (Private) Limited ("NetSol Innovation")

Virtual Lease Services Holdings Limited ("VLSH")

Virtual Lease Services Limited ("VLS")

Virtual Lease Services (Ireland) Limited ("VLSIL")

Vroozi, Inc. ("Vroozi") – discontinued on March 31, 2014

For comparative purposes, prior year's condensed consolidated financial statements have been reclassified to conform to report classifications of the current year.

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. Actual results could differ from those estimates.

New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The Company is currently evaluating the impact of adopting ASU 2014-08 on the Company's results of operations or financial condition.

In May 2014, the ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the Company in the first quarter of its fiscal year ending June 30, 2018. The Company is currently in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, *Compensation — Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)* (ASU 2014-12). The guidance applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. For all entities, the amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities. The Company is currently evaluating the impact of adopting ASU 2014-12 on the Company's results of operations or financial condition.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern*(ASU 2014-15). The guidance in ASU 2014-15 sets forth management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing financial statements for interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, Income Statement – Extraordinary and Unusual items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (ASU 2015-01). The amendment eliminates from U.S. GAAP the concept of extraordinary items. This guidance is effective for the Company in the first quarter of fiscal 2017. Early adoption is permitted and allows the Company to apply the amendment prospectively or retrospectively. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3 – EARNINGS PER SHARE

Basic earnings per share are computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, warrants, and stock awards. All options and warrants were excluded from the diluted loss per share calculation due to their anti-dilution effect.

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,	
	2014	2013	2014	2013
Stock Options	727,462	302,462	727,462	302,462
Warrants	163,124	163,124	163,124	163,124
	890,586	465,586	890,586	465,586

NOTE 4 – OTHER COMPREHENSIVE INCOME AND FOREIGN CURRENCY:

The accounts of NTE, NetSol UK, VLSH and VLS use the British Pound; VLSIL and NTG use the Euro; NetSol PK, Connect, Omni and NetSol Innovation use Pakistan Rupees; NTPK Thailand and NetSol Thai use Thai Baht; Australia uses the Australian dollar; and NetSol Beijing uses Chinese Yuan as the functional currencies. NetSol Technologies, Inc., and its subsidiaries, NTA and Vroozi, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Accumulated translation losses classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet were $16,208,648 and $14,979,223 as of December 31, 2014 and June 30, 2014, respectively. During the three and six months ended December 31, 2014, comprehensive income (loss) in the consolidated statements of operations included translation income of $726,129 and a loss of $1,229,425, respectively. During the three and six months ended December 31, 2013, comprehensive loss in the consolidated statements of operations included translation losses of $379,329 and $2,581,511, respectively.

NOTE 5 – RELATED PARTY TRANSACTIONS

In November 2004, the Company entered into a joint venture agreement with the Innovation Group called NetSol-Innovation (Pvt) Ltd., ("NetSol-Innovation"), a Pakistani company. NetSol-Innovation provides support services to the Innovation Group. During the three and six months ended December 31, 2014, NetSol-Innovation provided services of $1,354,476 and $2,750,476, respectively. During the three and six months ended December 31, 2013, NetSol-Innovation provided services of $1,256,899 and $2,224,442, respectively. Accounts receivable at December 31, 2014 and June 30, 2014 were $2,123,567 and $2,232,610, respectively.

NOTE 6 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

		As of December 31, 2014	As of June 30, 2014
Prepaid Expenses		$622,431	$450,451
Advance Income Tax		944,796	918,300
Employee Advances		61,864	46,730
Security Deposits		144,850	189,905
Tender Money Receivable		63,076	81,420
Other Receivables		280,143	645,397
Other Assets		368,548	430,508
Due From Related Party	(1)	78,408	95,168
Total		$2,564,116	$2,857,879

(1) Due from related party as of December 31, 2014 and June 30, 2014 is a receivable from Atheeb NetSol Saudi Company Limited.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	As of December 31, 2014	As of June 30, 2014
Office Furniture and Equipment	$2,624,218	$2,628,814
Computer Equipment	25,899,260	27,215,091
Assets Under Capital Leases	1,804,147	1,861,445
Building	6,068,353	6,259,290
Land	3,249,086	3,351,316
Capital Work In Progress	3,184,387	2,812,181
Autos	994,641	999,277
Improvements	510,573	533,102
Subtotal	44,334,665	45,660,516
Accumulated Depreciation	(16,791,176)	(15,939,388)
Property and Equipment, Net	$27,543,489	$29,721,128

For the three and six months ended December 31, 2014, depreciation expense totaled $1,360,652 and $2,729,359, respectively. Of these amounts, $932,063 and $1,850,955, respectively, are reflected in cost of revenues. For the three and six months ended December 31, 2013, depreciation expense totaled $1,116,347 and $2,113,907, respectively. Of these amounts, $715,871 and $1,327,961, respectively, are reflected in cost of revenues.

The Company’s capital work in progress consists of ongoing enhancements to its facilities and infrastructure necessary to meet expected long term growth needs. Accumulated capitalized interest was $776,463 and $664,614 as of December 31, 2014 and June 30, 2014, respectively.

Following is a summary of fixed assets held under capital leases as of December 31, 2014 and June 30, 2014:

	As of December 31, 2014	As of June 30, 2014
Computers and Other Equipment	$684,941	$731,354
Furniture and Fixtures	355,037	280,184
Vehicles	764,169	849,907

Total	1,804,147	1,861,445
Less: Accumulated Depreciation - Net	(514,566)	(469,336)
	$1,289,581	$1,392,109

NOTE 8 – INTANGIBLE ASSETS

Intangible assets consisted of the following:

	Product Licenses	Customer Lists	Technology	Total
Intangible Assets - June 30, 2014 - Cost	$48,632,368	$6,052,377	$ 242,702	$54,927,447
Additions	-	-	-	-
Effect of Translation Adjustment	(2,208,657)	-	-	(2,208,657)
Accumulated Amortization	(20,479,959)	(5,965,465)	(242,702)	(26,688,126)
Net Balance - December 31, 2014	$25,943,752	$86,912	$ -	$26,030,664

(A) Product Licenses

Product licenses include internally developed original license issues, renewals, enhancements, copyrights, trademarks, and trade names. Product licenses are amortized on a straight-line basis over their respective lives, and the unamortized amount of $25,943,752 will be amortized over the next 9.25 years. Amortization expense for the three and six months ended December 31, 2014 was $868,690 and $1,751,365, respectively. Amortization expense for the three and six months ended December 31, 2013 was $523,825 and $957,384, respectively.

(B) Customer Lists

Customer lists are being amortized on a straight-line basis over five years, which approximates the anticipated rate of attrition. The unamortized balance of $86,912 will be amortized over the next 1.75 years. Amortization expense for the three and six months ended December 31, 2014 was $12,636 and $26,004, respectively. Amortization expense for the three and six months ended December 31, 2013 was $18,832 and $48,880, respectively.

(C) Technology

Technology assets are being amortized on a straight-line basis over five years, which approximates the anticipated rate of attrition. Amortization expense for the three and six months ended December 31, 2014 was $114,368. Amortization expense for the three and six months ended December 31, 2013 was $12,658 and $24,777 respectively.

(D) Future Amortization

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

Year ended:	
December 31, 2015	$3,349,208
December 31, 2016	3,130,881
December 31, 2017	3,093,637
December 31, 2018	3,093,637
December 31, 2019	3,026,353
Thereafter	10,336,950
	$26,030,664

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NOTE 9 – GOODWILL

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in businesses combinations. Goodwill was comprised of the following amounts:

	As of December 31, 2014	As of June 30, 2014
NetSol PK	$1,166,610	$1,166,610
NTE	3,471,814	3,471,814
VLS	214,044	214,044
NTA	4,664,100	4,664,100
Total	$9,516,568	$9,516,568

The Company tests for goodwill impairment at each reporting unit. There was no goodwill impairment for the period ended December 31, 2014.

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of December 31, 2014	As of June 30, 2014
Accounts Payable	$1,496,813	$1,642,325
Accrued Liabilities	2,896,417	2,956,686
Accrued Payroll	8,052	44,185
Accrued Payroll Taxes	213,728	261,261
Interest Payable	48,522	61,555
Taxes Payable	204,343	165,649
Other Payable	103,226	103,226
Total	$4,971,101	$5,234,887

NOTE 11 – DEBTS

Notes payable and capital leases consisted of the following:

		As of December 31, 2014		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$106,690	$106,690	$-
Habib Bank Line of Credit	(2)	-	-	-
Bank Overdraft Facility	(3)	-	-	-
HSBC Loan	(4)	603,373	321,747	281,626
Term Finance Facility	(5)	490,586	245,293	245,293
Loan Payable Bank	(6)	1,962,343	1,962,343	-
Loan From Related Party	(7)	253,153	130,861	122,292
		3,416,145	2,766,934	649,211
Subsidiary Capital Leases	(8)	883,562	450,463	433,099
		$4,299,707	$3,217,397	$1,082,310

		As of June 30, 2014		
Name		Total	Current Maturities	Long-Term Maturities
D&O Insurance	(1)	$54,547	$54,547	$-
Habib Bank Line of Credit	(2)	2,438,844	2,438,844	-
Bank Overdraft Facility	(3)	-	-	-
HSBC Loan	(4)	835,899	346,138	489,761
Term Finance Facility	(5)	632,527	253,011	379,516
Loan Payable Bank	(6)	2,024,087	2,024,087	-
Loan From Related Party	(7)	322,600	194,740	127,860
		6,308,504	5,311,367	997,137
Subsidiary Capital Leases	(8)	1,014,834	479,891	534,943
		$7,323,338	$5,791,258	$1,532,080

(1) The Company finances Directors' and Officers' ("D&O") liability insurance as well as Errors and Omissions ("E&O") liability insurance, for which the total balances are renewed on an annual basis, are recorded in current maturities. The interest rate on the insurance financing was 0.43% and 0.55% as of December 31, 2014 and June 30, 2014, respectively.

(2) In April 2008, the Company entered into an agreement with Habib American Bank to secure a line of credit to be collateralized by certificates of deposit held at the bank. The interest rate on this line of credit is variable, and was 1.5% as of December 31, 2014 and June 30, 2014, respectively. In June 2012, the Company's subsidiary, NTA, entered into an agreement with Habib American Bank to secure a line of credit up to $500,000 to be collateralized by certificates of deposit of the same value held at the bank. The interest rate on this line of credit is variable and was 1.9% as of December 31, 2014 and June 30, 2014, respectively. Interest expense for the three and six months ended December 31, 2014 was $nil and $8,658, respectively. Interest expense for the three and six months ended December 31, 2013 was $9,430 and $16,726, respectively. Amounts of both lines of credit were paid down during the period.

(3) During the year ended June 30, 2008, the Company's subsidiary, NTE, entered into an overdraft facility with HSBC Bank plc whereby the bank would cover any overdrafts up to £300,000, or approximately $465,983. The annual interest rate was 4.75% as of December 31, 2014 and June 30, 2014, respectively.

This overdraft facility requires that the aggregate amount of invoiced trade debtors (net of provisions for bad and doubtful debts and excluding intra-group debtors) of NTE, not exceeding 90 days old, will not be less than an amount equal to 200% of the facility. As of December 31, 2014, NTE was in compliance with this covenant.

(4) In October 2011, the Company's subsidiary, NTE, entered into a loan agreement with HSBC Bank to finance the acquisition of 51% in Virtual Leasing Services Limited. HSBC Bank guaranteed the loan up to a limit of £1,000,000, or approximately $1,553,277 for a period of 5 years with monthly payments of £18,420, or approximately $28,611. The interest rate was 4% which is 3.5% above the bank sterling base rate. The loan is securitized against debenture comprising of fixed and floating charges over all the assets and undertakings of NTE including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future. Interest expense for the three and six months ended December 31, 2014 was $13,248 and $29,950, respectively. Interest expense, during the three and six months ended December 31, 2013, was $19,047 and $41,489, respectively.

This facility requires that NTE's adjusted tangible net worth to be not be less than £600,000. For this purpose, adjusted tangible net worth means shareholders' funds less intangible assets plus non-redeemable preference shares. In addition, the facility requires NTE's cash debt service coverage to not fall below 150% of the aggregate debt service cost. As of December 31, 2014, NTE was in compliance with this covenant.

(5) The Company's subsidiary, NetSol PK, entered into two different term finance facilities from Askari Bank to finance the construction of a new building. The total aggregate amount of these facilities is Rs. 112,500,000, or approximately $1,103,818 (availed Rs. 50,000,000 or $490,586), (secured by the first charge of Rs. 580 million or approximately $5.69 million over the land, building and equipment of the company). The interest rate was 12.90% as of December 31, 2014 and June 30, 2014, respectively, which is 2.75% above the six-month Karachi Inter Bank Offering Rate.

(6) The Company's subsidiary, NetSol PK, has an export refinance facility with Askari Bank Limited, secured by the Company's assets. This is a revolving loan that matures every six months. Total facility amount is Rs. 300,000,000 or $2,943,514 (availed Rs. 200,000,000 or $1,962,343). The interest rate for the loans was 7.5% and 9.4% at December 31, 2014 and June 30, 2014 respectively. Interest expense for the three and six months ended December 31, 2014 was $37,068 and $72,775, respectively. Interest expense for the three and six months ended December 31, 2013, was $42,081 and $86,181, respectively.

Both term and export refinance facilities from Askari Bank Limited amounting to Rupees 250 million ($2.45 million) require NetSol PK to maintain a long term debt equity ratio of 60:40 and the current ratio of 1:1. As of December 31, 2014, NetSol PK was in compliance with this covenant.

(7) In October 2013, the Company's subsidiary, NTE, entered into a loan agreement with Investec, a related party, to finance VLS. The loan amount was £100,000, or approximately $155,327, for a period of 1 year with monthly payments of £8,676, or approximately $13,476. The interest rate was 4.1%. As of December 31, 2014, the company has paid off full amount of loan.

In March 2014, the Company's subsidiary, VLS, entered into a loan agreement with Investec. The loan amount was £150,000, or approximately $232,990, for a period of two years with annual payments of £75,000, or approximately $116,495. The interest rate was 3.13%. As of December 31, 2014, the subsidiary has used this facility up to $253,152 including interest due, of which $122,292 was shown as long term and $130,861 as current maturity, including seven months of accrued interest.

(8) The Company leases various fixed assets under capital lease arrangements expiring in various years through 2018. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are secured by the assets themselves. Depreciation of assets under capital leases is included in depreciation expense for the three and six months ended December 31, 2014 and 2013.

Following is the aggregate minimum future lease payments under capital leases as of December 31, 2014:

	Amount
Minimum Lease Payments	
Due FYE 12/31/15	$531,224
Due FYE 12/31/16	382,127
Due FYE 12/31/17	85,482
Total Minimum Lease Payments	998,833
Interest Expense relating to future periods	(115,271)
Present Value of minimum lease payments	883,562
Less: Current portion	(450,463)
Non-Current portion	$433,099

NOTE 12 – STOCKHOLDERS' EQUITY

Share-Based Payment Transactions

During the six months ended December 31, 2014, the Company issued 52,500 shares of restricted common stock for services rendered by officers of the Company. These shares were valued at the fair market value of $305,700.

During the six months ended December 31, 2014, the Company issued 11,726 shares of restricted 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 $57,233.