NETSOL TECHNOLOGIES INC
Form 10-K
September 28, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

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 incorporation or organization)	(I.R.S. Employer Identification Number)

24025 Park Sorrento, Suite 410,

Calabasas, CA 91302

(Address of principal executive offices) (Zip code)

(818) 222-9195

(Issuer's telephone number including area code)

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT:

COMMON STOCK, $.01 PAR VALUE

THE NASDAQ CAPITAL MARKET

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K(§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer [ ]	Accelerated Filer [ ]
Non-accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately $50,679,647 based upon the closing price of the stock as reported on NASDAQ Capital Market ($5.2 per share) on December 31, 2016, the last business day of the registrant's second quarter. As of September 25, 2017, there were 11,114,599 shares of common stock outstanding and no shares of its Preferred Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(None)

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES ACT OF 1934

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NOTE ABOUT FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to the development of the Company's products and services and future operation results, including statements regarding the Company that are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The words "believe," "expect," "anticipate," "intend," variations of such words, and similar expressions, identify forward looking statements, but their absence does not mean that the statement is not forward looking. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Factors that could affect the Company's actual results include the progress and costs of the development of products and services and the timing of the market acceptance. Forward looking statements may appear throughout this report, including without limitation, the following sections: Item 1 "Business," and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risk and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, "NetSol," "we", "our," and similar terms include NetSol Technologies, Inc. and its subsidiaries, unless the context indicates otherwise.

PART 1

ITEM 1 - BUSINESS

GENERAL

NetSol Technologies, Inc. (NasdaqCM: NTWK) is a worldwide provider of IT and enterprise software solutions. We believe that our solutions constitute mission critical applications for clients, as they encapsulate end-to-end business processes, facilitating faster processing and increased transactions.

The Company's primary source of revenue is the licensing, customization, enhancement and maintenance of its suite of financial applications under the brand name NFS™ (NetSol Financial Suite) and NFS Ascent™ for leading businesses in the global lease and finance industry.

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

Founded in 1997, NetSol is headquartered in Calabasas, California. While the Company follows a global strategy for sales and delivery of its portfolio of solutions and services, it continues to maintain regional offices in the following locations:

North America	Los Angeles Area
Europe	London Metropolitan area
Asia Pacific	Lahore, Karachi, Bangkok, Beijing, Jakarta and Sydney

The Company continues to maintain services, solutions and/or sales specific offices in the USA, England, Pakistan, Thailand, China, Indonesia and Australia.

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OUR BUSINESS

Company Business Model

NetSol believes that strong technology solutions with provable returns on investment are required to sell to its globally competitive and mature marketplace. NetSol believes that people are the drivers of success and we invest in hiring, training and retaining top-notch staff to ensure not only successful selling but also the ongoing satisfaction of our clients. Taken together, this “selling and attentive servicing” approach creates a distinctive advantage for NetSol and a unique value for its customers. NetSol continues to underpin this effective business model with a combination of careful cost arbitrage, subject matter expertise, domain experience, scalability and proximity with its global and regional customers.

Niche Market Focus

By specializing in leasing and financing solutions, we have gained footholds in several global locations and a market leading position in the captive auto-finance segment and a growing presence in the general asset finance space.

Subject Matter Expertise

NetSol’s dual expertise in enterprise technology implementation and financial application development has helped it emerge as a global contender in the lease and finance industry, and secure a broad footprint throughout the major markets of North America, Asia Pacific and Europe. The Asia Pacific operating region has particularly benefitted from the organic growth in the fast-developing leasing automation industry, which is still nascent by Western standards.

Domain Experience

NetSol has a strong presence in the captive auto-finance domain. With a collective experience of over two decades in Asia Pacific and over three decades in North America and Europe, NetSol is one of a few global competitors in this niche industry.

Proximity with Global and Regional Customers

The Company has offices across the world, located strategically to maintain close contact and proximity with its customers in various key markets. It has helped in strengthening customer relationships and building a deeper understanding of local market dynamics. Simultaneously, the Company is able to extend services and even development support through a combination of local/onsite and central/off-site resources. This approach allows the Company to offer blended rates to its customers by employing a unique and cost effective global development model.

While our business model is built around the development, implementation and maintenance of our suite of financial applications, under NFS™, NetSol has employed the same facilities and competencies to extend its offerings into related segments, including:

- IT consulting & services
- business intelligence
- information security
- independent system review
- outsourcing services and software process improvement consulting
- maintenance and support of existing systems
- project management
- technology/start-up incubation

Our global operation is broken down into three regions: North America, Europe and Asia Pacific. All of the subsidiaries are seamlessly integrated to function effectively with global delivery capabilities, cross selling to multinational asset finance companies, leveraging a centralized marketing and pre-sales organization and a network of employees connected across the globe to support local and global customers and partners.

OUR SOLUTIONS

NetSol Financial Suite™

NetSol's offerings include its flagship global solution, NFS™. A robust suite of four software applications that is an end-to-end solution for the asset finance industry covering the complete leasing and finance cycle starting from quotation origination through end of contract transactions, and including digital channel support with intuitive mobile applications. The four applications under NFS™ have been designed and developed for a highly flexible setting and are capable of dealing with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments. Each application is a complete system in itself and can be used independently to address specific sub-domains of the leasing/financing cycle. When used together, they fully automate the entire leasing/financing cycle for companies of any size, including those with multi-billion dollar portfolios.

On October 24, 2013, we announced the introduction and release of NFS Ascent™, the Company's next generation platform, offering a technologically advanced solution for the auto and equipment finance and leasing industry. NFS Ascent's™ architecture and user interfaces were designed based on the Company's collective experience with global Fortune 500 companies over the past 40 years combined with UX design concepts. The platform's framework allows auto captive and asset finance companies to rapidly transform legacy driven technology into a state-of-the-art IT and business process environment. At the core of the NFS Ascent™ platform is a lease accounting and contract processing engine, which allows for an array of interest calculation methods, as well as robust accounting of multi-billion dollar lease portfolios in compliance with various regulatory standards. NFS Ascent™, with its distributed and clustered deployment across parallel application and high volume data servers, enables finance companies to process voluminous data in a hyper speed environment.

NFS Ascent™ has been developed using the latest tools and technologies and its n-tier SOA architecture allows the system to greatly improve a myriad of areas including, but not limited to, scalability, performance, fault tolerance and security. We believe that the transition from NFS™ to NFS Ascent™ allows:

Improvement in overall productivity throughout the delivery organization:

The features of the integrated Business Process Manager, Workflow Engine and Business Rule Engine, will provide flexibility to our clients allowing them to configure certain parts of the application themselves rather than requesting customization.

The NFS Ascent™ platform and the SOA architecture allow us to develop portals and mobile applications quickly by utilizing our existing services.

The n-tier architecture allows us to intelligently distribute processing and eases application maintenance. The loose coupling between various modules and layers reduces the risk of regression in other parts of the system as a result of changes made in one part of the system and follows proven and accepted SOA principles.

Improvement in talent acquisition and retention:

Because NFS Ascent™ has been developed using the latest technologies and tools available in the market, it is helping us in attracting and retaining top engineers.

Better customer satisfaction:

As a result of the powerful NFS Ascent™ platform and improvement in the talent pool, the quality of our deliverables has increased.

NFS™ and NFS Ascent™ have the following as their constituent applications:

Loan Origination System (LOS)

Point of Sale (POS)

POS is a front office processing system for companies in the financial sector. It provides a quotation system which also incorporates a simulation for all kinds of financial products using a powerful built-in loan calculator.

Credit Application Processing System (CAP)

CAP provides companies in the financial sector with an environment to handle the incoming credit applications from dealers, agents, brokers and the direct sales force. CAP automatically gathers information from different interfaces like credit rating agencies, evaluation guides, and contract management systems and gives the applications a score against a user defined point scoring system. This automated workflow permits the credit team members to make their decisions more quickly and accurately. CAP is a database independent online system developed in Microsoft's *.Net* framework. It can be run from any computer system with normal specifications, which is a key benefit for clients.

Contract Management System (CMS)

CMS provides comprehensive business functionality that enables its users to effectively and smoothly manage and maintain a contract with the most comprehensive details throughout its life cycle. It provides interfaces with external systems such as banks and accounting systems. CMS effectively maintains details of all business partners that do business with the company including, but not limited to, customers, dealers, debtors, guarantors, insurance companies and banks.

Wholesale Finance System (WFS)

WFS automates and manages the floor plan/bailment activities of dealerships through a finance company. The design of the system is based on the concept of one asset/one loan to facilitate asset tracking and costing. The system covers credit limit, payment of loan, billing and settlement, stock auditing, online dealer and auditor access, and ultimately the pay-off functions.

Dealer Auditor Access System (DAAS)

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

Fleet Management System (FMS)

FMS is designed to efficiently handle all fleet management needs. FMS is easily integrated with CMS and WFS as well as with any third party contract management system to ensure a single comprehensive system. FMS key features include: a detailed tracking of information on every driver and vehicle; customizable reports; periodic reporting on fleet related aspects; internet based access to information; integration with third party software; and, linkage to GPS for real time tracking.

NFS Mobility

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

Mobile Account

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

Mobile Point of Sale

The application *mPOS* is a web and mobile enabled platform featuring a customizable home screen dashboard along with multiple quotation, application submission, work queues and detailed reporting to empower dealer networks in making the right decisions at the right time, in turn optimizing productivity.

Mobile Dealer

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

Mobile Auditor

The *mAuditor* schedules visits, records audit exceptions and tracks assets for higher levels of transparency, in real time.

Mobile Field Investigator

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

Regional NFS™ Offerings

While NFS Ascent™ is designed to be a truly global solution ready for customization in any market, the Company has historically provided products tailored to various markets. As such, we offer the following additional regional products:

LeasePak

In North America, NetSol Technologies Americas, Inc. (NTA) has and continues to develop the LeasePak CMS product. LeasePak streamlines the lease management lifecycle, enabling superior lease and loan portfolio management, flexible financial products (lease or loan terms) and sophisticated financial analysis and management to reducing operating costs and improve profits. It is scalable from a basic offering to a collection of highly specialized add on modules for systems, portfolios and accrual methods for virtually all sizes and varying complexity of operations. It is part of the vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors. It handles every aspect of the lease or loan lifecycle, including credit application origination, credit adjudication, pricing, documentation, booking, payments, customer service, collections, midterm adjustments, and end-of-term options and asset disposition. It is also integrated with important partners in the asset-finance ecosystem, such as Vertex Series O.

LeasePak-SaaS

NTA also offers the LeasePak Software-as-a-Service ("SaaS") business line, which provides high performance with a reduced total cost of ownership. SaaS offers a proven deployment option whereby customers only require access to the internet to use the software. With an elastic cloud price, revenue stream predictability and improved return on investment for customers, management believes that its SaaS customers will experience the performance, the reliability and the speed usually associated with a highly scalable private cloud. LeasePak-SaaS targets small and mid-sized leasing and finance companies.

LeaseSoft

In addition to offering NFS Ascent™ to the Europe market, NTE has some regional offerings, including:

- LeaseSoft – a full lifecycle lease and finance system aimed predominantly at the UK funder market, including modules to support web portals and an electronic data interchange manager to facilitate integration between funders and introducers.
- LoanSoft – similar to LeaseSoft, but optimized for the consumer loan market.

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Implementation Process

The implementation process can span from three to eighteen months depending upon the complexity and scope. The implementation process also includes related software services such as configuration, data migration, training and any other additional third party interfaces. Even after implementation, customers seek enhancements and additions to improve their business processes. NetSol charges these efforts in a man-day rate. Post implementation, NetSol consultants may remain at the client site to assist the customer in smooth operations. After this phase, the regular maintenance and support services phase for the implemented software begins. In addition to the daily rate paid by the customer for each consultant, the customer also pays for all the transportation related expenses, boarding of the consultants, and a living allowance. NetSol's involvement in all of the above steps is priced to bring value to our customers and increase our profitability from our interactions.

Pricing and Revenue Streams

The Company's revenue streams occur through the following three main areas:

- Product licensing
- Implementation related services
- Maintenance and support related services

License fees can vary generally between $100,000 for SaaS minimal modules to more than $2,000,000 for more robust multiple module implementations. There are various attributes which determine the level of complexity, a few of which are: number of contracts; size of the portfolio; business strategy of the customer; internal business processes followed by the customer; number of business users; and branch network of the customer. The Company recognizes revenue from license contracts without major customization when a non-cancelable, non-contingent license agreement has been signed, delivery of the software has occurred, the fee is fixed or determinable, and collectability is probable. However, revenue from sale of licenses with major customization, modification, and development is recognized on a percentage of completion basis. Implementation related services, including configuration, data migration and third party interfaces are recognized in accordance with the percentage of completion method. Maintenance and support related services are then provided on a continued basis. The annual maintenance fee, which typically is an agreed upon percentage of overall monetary value of the license, then becomes an ongoing revenue stream realized on yearly basis. Revenue from software services includes fixed price contracts and is recognized in accordance with the percentage of completion method using the output measure of "Unit of Work Completed."

Joint Ventures

NetSol-Innovation

In November 2004, the Company entered into a joint venture agreement with 1insurer (formerly the Innovation Group) forming NetSol-Innovation (Pvt) Ltd., ("NetSol-Innovation"), a Pakistani company. NetSol-Innovation provides support services enabling 1insurer to scale solution delivery operations in key growth markets. NetSol-Innovation operations are centered in NetSol's delivery center in Lahore, Pakistan. NetSol owns a majority of the venture. The entities share in the profits of the joint venture on the basis of their shareholding. The outsourcing model between 1insurer and NetSol involves services pertaining to business analyses, configuration, testing, software quality assurance, technical communication, research and development regarding its insurance platform, client support as well as project management for development of software for 1insurer.

Initiated with a 10-person outsourcing team in Lahore in February 2005, this arrangement has extended to 156 persons with the additional resources catering to the increased influx of outsourcing of configuration and testing assignments from 1insurer. Currently, prominent 1insurer's customers being serviced from Lahore include GuideOne USA, Homesite USA, UPC USA and MDU UK.

Virtual Lease Services

Virtual Lease Services (VLS) is a joint venture partnership with NTE and Investec Bank. NetSol owns a majority of the venture. VLS provides an asset finance services proposition complementing our core solutions offerings. VLS provides three core services, covering business process outsourcing (BPO), provision of standby servicing to the securitization markets, and audit services. The cornerstone of VLS's range of services is the BPO offering which provides portfolio management to a range of businesses, including start-ups, growth businesses, and those in run down mode. The BPO service also supports portfolio acquirers. VLS carries a Fitch ABS Primary Servicer Rating of "ABPS3", upgraded from "ABPS3-" in October 2014.

Alliances

Daimler South East Asia Pte. Ltd. (“DSEA”), (through the regional office Daimler Financial Services (“DFS”) Africa Asia Pacific), has established a “Centre of Competence” (“CoC”) in Singapore to facilitate the regional companies in NFS™ related matters. The DSEA CoC is powered by highly qualified technical and business personnel. In conjunction with our Asia Pacific region, the CoC supports DFS companies in twelve different countries in Asia and Africa and this list can increase as more DFS companies from other countries opt for NFS Ascent™. In July 2004, the Company entered into a Frame Agreement with DFS for the Asia Pacific and Africa region. This agreement was renewed in 2008, 2010, 2013 and most recently in January 2016. The agreement serves as a guideline for managing the business relationship with DFS and the use of licensed NFS™ products by DFS and its affiliated companies.

Technical Affiliations

The Company is a Microsoft Certified Silver Partner and an Oracle Certified Partner.

Marketing and Selling

NetSol management continues its optimism that the Company will experience ever increasing opportunities for its product and services offerings in 2017 and beyond. The objective of the Company’s marketing program is to create and sustain preference and loyalty for NetSol. Marketing is performed at the corporate and business unit levels. The corporate marketing department has overall responsibility for communications, advertising, public relations and the website. In addition, corporate marketing oversees central marketing and communications programs for use by each of the business units.

Our dedicated marketing personnel, within the regions, undertake a variety of marketing activities, including sponsoring focused client events to demonstrate our skills and products, sponsoring and participating in targeted conferences and holding private briefings with individual companies. We believe that the industry focus of our sales professionals and our business unit marketing personnel enhances their knowledge and expertise in these industries and will generate additional client engagements.

The Markets

NetSol provides its services primarily to clients in global commercial industries. In the global commercial area, the Company's service offerings are marketed to clients in a wide array of industries including, automotive, software, banks, higher education and financial services.

The Asian continent, including Australia and New Zealand, from the perspective of marketing, are targeted by the Asia Pacific Region from its Bangkok, Beijing and Lahore facilities. The marketing for our core offerings in the Americas and Europe is carried out from our Los Angeles Area and London Metropolitan area offices, respectively.

People and Culture

The Company believes it has developed a strong corporate culture that is critical to its success. Its key values are delivering world-class quality software, client-focused timely delivery, leadership, long-term relationships, creativity, openness and transparency and professional growth. The services provided by NetSol require proficiency in many fields, such as software engineering, project management, business analysis, technical writing, sales and marketing, and communication and presentation skills.

Due to the growing demand for our core offerings and IT services, retention of technical and management personnel is essential. We have enhanced the compensation structure for our technical teams and senior management to stay ahead of global and regional competition. As a result, we have improved IT employee turnover from almost 20% in 2014 to less than 15% today with a goal is to improve the turnover level to under 10% in this fiscal year and onwards. In addition, we are committed to improving key performance indicators such as efficiency, productivity and revenue per employee.

To encourage all employees to build on our core values, we reward teamwork and promote individuals that demonstrate these values. We believe that our growth and success are attributable in large part to the high caliber of our employees and our commitment to maintain the values on which our success has been based. We support gender diversity on a global basis. NetSol is an equal opportunity employer with the largest concentration of female employees in Lahore, Pakistan and our U.S. headquarters.

NetSol believes it should give back to the community and employees as much as possible. Certain of our subsidiaries are located in regions where basic services are not readily available. Where possible, NetSol acts to not only improve the quality of life of its employees but also the standard of living in these regions. Examples of such programs are:

Humanitarian Relief— We are all aware of the devastation that can be wrought by natural disasters. NetSol has historically supported earthquake and flood relief where the need is the greatest.
Literacy Program— launched to educate low paid illiterate employees of the organization. The main objective of this program is to enable these resources to acquire basic reading, writing and arithmetic skills.
Noble Cause Fund—A noble cause fund has been established to meet medical and education expenses of the children of low paid employees. NetSol employees voluntarily contribute a fixed amount every month to the fund and the Company matches the employee subscriptions with an equivalent contribution amount. A portion of this fund is also utilized to support social needs of certain institutions and individuals, outside NetSol.
Day Care Facility—NetSol's human resources are its key assets and thus the Company takes numerous steps to ensure the provision of basic comforts to its employees. In Pakistan, the provision of outside pre-school child care is a rarity. With this in mind, a child day care facility has been created in close proximity to NetSol offices providing employees with peace of mind knowing their children are nearby and being taken care of by qualified staff in a child friendly facility.
Preventative Health Care Program—In addition to the comprehensive out-patient and in-patient medical benefits, preventive health care has also been introduced. This phased program focuses on vaccination of our employees against such diseases as Hepatitis – A/B, Tetanus, Typhoid and Flu on a routine basis.

There is significant competition for employees with the skills required to perform the services we offer. The Company runs an elaborate training program for different cadre of employees to cover technical skills and business domain knowledge, as well as communication, management and leadership skills. The Company believes that it has been successful in its efforts to attract and retain the highest level of talent available, in part because of the emphasis on core values, training and professional growth. We intend to continue to recruit, hire and promote employees who share our vision.

As of June 30, 2017, we had approximately 1,461 employees; comprised of 1,082 IT project and technical personnel; and 380 non-IT personnel. The IT project and technical personnel include 766 employees dedicated to NFS and NFS Ascent™, 151 employees dedicated to the joint venture with 1insurer and 165 employees supporting the regional offerings as well as IT consulting and services. None of our employees are subject to a collective bargaining agreement.

Competition

Neither a single company, nor a small number of companies, dominate the IT market in the space in which the Company competes. A substantial number of companies offer services that overlap and are competitive with those offered by NetSol. Some of these are large include computer manufacturers and computer consulting firms that have greater financial resources than NetSol and, in some cases, may have greater capacity to perform services similar to those provided by NetSol.

In the NFS™ business space, the barriers to entry are getting higher. The products are becoming more cutting-edge while richness in functionality is paramount. Older companies have prolonged the life of their legacy products by creating web-based front ends, while the core of the systems has not been re-engineered. In the case of NFS™, we compete chiefly against leading suppliers of IT solutions to the financial industry, including names such as White Clarke, Fimasys, International Decision Systems (IDS), Data Scan, Alfa, 3i Infotech, Finnone and Nucleus Software.

In the IT based business services areas, we compete with both smaller local firms and many global IT services providers, including names such as Wipro, InfoSys, Satyam Infoway, HCL and TCS (Tata Consulting).

Many of the competitors of NetSol have longer operating history, larger client bases, and longer relationships with clients, greater brand or name recognition and significantly greater financial, technical, and public relations resources than NetSol. Existing or future competitors may develop or offer services that are comparable or superior to ours at a lower price, which could have a material adverse effect on our business, financial condition and results of operations.

Customers

NetSol customers include world renowned auto manufacturers through their finance arms and large regional banks. In addition, NetSol provides offshore development and testing services to 1insurer, formerly Innovation Group Plc UK, and their blue chip global insurance customers through the NetSol-Innovation joint venture, which contributes about 8.67% of NetSol's revenues. NetSol is also a strategic business partner for Daimler (which consists of a group of many companies in different countries), which accounts for 44.25% of our revenue.

Global Operations and Geographic Data

The Company divides its operations into three regions: the Americas, Europe and Asia Pacific. The regions consist of individual subsidiaries which operate as autonomous companies and are strategically managed on a regional basis.

The Americas

At NTA, Mr. Jeffrey Bilbrey, formerly a NetSol Technologies Inc. independent board member for three years and also Vice President at Majesco Software and Services, acts as President. Mr. Bilbrey brings 24 years of software product management, consulting services delivery and technology business operations leadership to NTA. His focus is to expand the presence of NetSol in the Americas region while assuring elevated service levels to all existing clients.

Operations and head of sales continue to be led by Mr. Farooq Ghauri. He is a technology industry and domain expert with a 13 year proven track record in driving the rapid expansion of an industry leading global software organization. He has been working in NTA since 2008 as an active member of the management team. He has worked in NetSol’s Pakistan, China, Australia, Thailand and US offices providing him with the complete understanding of NetSol’s global operations in an industry that is rapidly expanding and changing.

Europe

Mr. Asad Ghauri leads our European market as Group Managing Director. Mr. Ghauri has a long history of experience in the Company, including a tenure as a board of director member, and vast experience in leading our Asia Pacific unit. We believe this experience will be utilized to lead growth in Europe. The NTE entity is led by Mr. Tim O’Sullivan as Managing Director. Mr. O’Sullivan has the necessary industry expertise and domain knowledge to service the needs of the European Market.

VLS is led by Ms. Louise Ikonomides. As Managing Director and founding shareholder of VLS, Ms. Ikonomides has been with VLS since its inception in 1999.

Asia Pacific Region

NetSol Technologies, Ltd., a majority owned subsidiary of the parent company is located in Lahore, Pakistan and is headed by Mr. Salim Ghauri as its CEO. Mr. Ghauri is a co-founder of NetSol Technologies and has been with the Company since 1996.

NetSol Beijing is headed by Mr. Umar Qadri as President. Mr. Qadri has been with NetSol for over five years where he has gained valuable experience in both technology and management.

The Global Sales Division is headed by Mr. Naeem Ghauri as President of Sales from the NetSol Thai offices located in Bangkok, Thailand. Mr. Ghauri has been with NetSol since 1999 and has over 28 combined years of experience in business and IT. He is also a member of the board of directors of the parent Company.

The Asia Pacific region including Australia/New Zealand and the Middle East, is targeted from the Asia Pacific region offices located in Beijing China; Bangkok, Thailand; Lahore and Karachi, Pakistan. While Lahore continues to be a mainstay of the Company's delivery and research and development, Bangkok's expanded sales operation and client relations facility has grown into a back-up to the Lahore facility. With the continued growth of the Chinese market, our Beijing office continues to expand as both a sales and support facility. Finally, the Asia Pacific region maintains and will establish offices through the region as is necessary to support its customers and to explore potential new markets.

Our Asia Pacific Region accounted for approximately 81% of our revenues in 2017 and our North America and European regions together accounted for approximately 19% of our revenues in 2017. Information regarding financial data by geographic areas is set forth in Item 7 and Item 8 of this Annual Report on form 10-K. See note 19 of Notes to Consolidated Financial Statements under Item 8.

Intellectual Property

The Company relies upon a combination of nondisclosure and other contractual arrangements, as well as common law trade secret, copyright and trademark laws to protect its proprietary rights. The Company enters into confidentiality agreements with its employees, generally requires its consultants and clients to enter into these agreements, and limits access to and distribution of its proprietary information. The NetSol logo and name, as well as the NFS logo and product name have been copyrighted and trademark registered in Pakistan. The NetSol logo and BestShoring® name has been registered with the U.S. Patent and Trademark Office. An application has been filed to trademark the NFS Ascent™ with the U.S. Patent and Trademark Office and is currently being processed. The Company intends to trademark and copyright its intellectual property as necessary and in the appropriate jurisdictions.

Governmental Approval and Regulation

Current Company operations do not require specific governmental approvals. Like all companies, including those with multinational subsidiaries, we are subject to the laws of the countries in which the Company maintains subsidiaries and conducts operations. Pakistani law allows a tax exemption on income from exports of IT services and products up to 2018. While foreign based companies may invest in Pakistan, repatriation of their investment, in the form of dividends or other methods, requires approval of the State Bank of Pakistan.

Available Information

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

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website by signing up for e-mail alerts. Further corporate governance information, including our committee charters and code of conduct, is also available on our investor relations website at http://ir.netsoltech.com/governance-docs. The content of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

ITEM 1A - RISK FACTORS

Not Applicable.

ITEM 2 - PROPERTIES

Our corporate headquarters are located in Calabasas, California where we lease 7,210 square feet of office space. We own our Lahore Technology Campus which consists of approximately 140,000 square feet of computer and general office space. This includes the newly constructed building having a covered area of approximately 90,000 square feet with the capacity to house approximately 1,000 resources. In addition, we maintain leased office space in the UK, China, Australia, Thailand and Indonesia. Our NTA office has been consolidated with the corporate headquarters. We believe our existing facilities, both owned and leased, are in good condition and suitable for the conduct of our business.

ITEM 3 - LEGAL PROCEEDINGS

On October 27, 2015, a shareholder derivative lawsuit was filed in the California state court entitled *McArthur v Ghauri, et al.*, Case No. BC599020 (Los Angeles, Cty.), naming current and former members of the Company's board of directors as defendants. The complaint alleges that the defendants breached their fiduciary duties. The Company was named as a nominal defendant only and no damages are sought from it. On March 16, 2016, the parties in the California lawsuit reached an agreement-in-principle providing for the settlement of that case.

On December 30, 2015, a virtually identical shareholder derivative lawsuit was filed in Nevada state court, *Paulovits v. Ghauri, et al.*, Case No. CV15-02470 (Washoe Cty.). The Nevada complaint named the same defendants and was based on the same alleged facts as the earlier-filed California case. On April 29, 2016, the Company filed a motion to dismiss or stay the Nevada proceeding on multiple grounds, including that is it duplicative of the first-filed California action. On May 23, 2016, pursuant to the parties' stipulation, the Nevada court ordered that matter to be stayed for a period of one year.

On June 15, 2016, the parties in the California and the Nevada cases jointly executed a Stipulation and Agreement of Settlement of Derivative Claims, which is intended to fully resolve both cases. Pursuant to the stipulation and subject to the court's approval, the Company has agreed to adopt or maintain certain corporate governance measures, and has agreed to cause its insurers to pay plaintiff counsel's fees and expenses in an aggregate amount not to exceed $175,000. On June 16, 2016, the California plaintiff filed a motion for preliminary approval of the derivative settlement.

On May 30, 2017, Los Angeles Superior Court Judge Kenneth R. Freeman signed the Final Judgment and Order approving settlement and dismissing with prejudice the shareholder derivative litigation involving the Company. The order became effective on June 29, 2017.

On April 7, 2017, Conister Bank Limited filed a complaint in the High Court of Justice Chancery Division, as claim no HC-2017-001045 against our subsidiary, Virtual Lease Services Limited ("VLS"). The complaint alleges that VLS was in willful default of their agreements with Conister Bank Limited by failing to fulfill its obligations under the agreements with Conister. The complaint alleges damages in excess of £200,000 (approximately $260,000). VLS has responded to the complaint and its expenses are currently covered by available insurance. VLS denies all claims and intends to vigorously defend the action.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITY

(a) MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION - Common stock of NetSol Technologies, Inc. is listed and traded on NASDAQ Capital Market under the ticker symbol "NTWK".

The table shows the high and low intra-day prices of the Company's common stock as reported on the composite tape of the NASDAQ for each quarter during the last two fiscal years.

Fiscal Year 2017	High	Low
First Quarter	$7.00	$5.64
Second Quarter	$6.65	$5.00
Third Quarter	$5.55	$4.35
Fourth Quarter	$5.60	$3.80

Fiscal Year 2016	High	Low
First Quarter	$5.96	$4.20
Second Quarter	$9.50	$5.02
Third Quarter	$8.20	$6.02
Fourth Quarter	$7.46	$5.40

RECORD HOLDERS - As of September 25, 2017, the number of holders of record of the Company's common stock was 162.

DIVIDENDS - The Company has not paid dividends on its Common Stock in the past two fiscal years.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLAN

The table shows information related to our equity compensation plans as of June 30, 2017:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)	
Equity Compensation Plans approved by Security holders	475,133	(1)	$ 4.20	(2)	474,111	(3)
Equity Compensation Plans not approved by Security holders	None		None		None	
Total	475,133		$ 4.20		474,111	

(1) Consists of 1,000 under the 2003 Incentive and Nonstatutory Stock Option Plan; 53,462 under the 2005 Incentive and Nonstatutory Stock Option Plan; and 420,671 under the 2013 Incentive and Nonstatutory Stock Option Plan.
(2) The weighted average exercise price of the options is $4.20.
(3) Represents 130,000 available for issuance under the 2011 Incentive and Nonstatutory Stock Option Plan, 2,595 under the 2013 Incentive and Nonstatutory Stock Option Plan and 341,516 under the 2015 Incentive and Nonstatutory Stock Option Plan.

(b) RECENT SALES OF UNREGISTERED SECURITIES

None.

ITEM 6 – SELECTED FINANCIAL DATA

Not applicable.

ITEM 7- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND Results OF OPERATIONS

The following discussion is intended to assist in an understanding our financial position and results of operations for the year ended June 30, 2017. It should be read together with our consolidated financial statements and related notes included under Item 8 of this Annual Report on Form 10-K.

A few of our highlights for 2016-2017 were:

- The first implementation of our contract with a long-standing customer to upgrade to NFS Ascent™ in 11 countries and implement NFS Ascent™, in one new country was recently completed in Australia and New Zealand. The implementation phase continues in China, Korea, and South Africa.
- Sold LeasePak license valued at $500,000 to Korean based automotive captive for their U.S. operations.
- NetSol PK signed a collaboration agreement to provide technology services to WRLD3D, an interactive 3D mapping company based in the United Kingdom. The WRLD3D platform enables businesses to easily visualize complex data sets and location-based services in a 3D mobile experience.
- Went live with a major implementation of our NFS legacy system with Tri Petch Isuzu Leasing in Thailand.
- Went live with NFS legacy system in China.
- A restructuring of the Company's efficiencies, initiated in December 2016, is expected to result in approximately $4 million in savings spread over the next year.
- Teamed up with Microsoft Pakistan to foster innovation, encourage entrepreneurship and provide senior mentorship to promising new start-ups as part of the NSPIRE program.
- NetSol PK signed an agreement with Microsoft North Africa, East Mediterranean & Pakistan to further support the Pakistan technological start-ups.

Our success, in the near term, will depend in large part on the Company's ability to: (a) continue to grow revenues and improve profits, (b) adequately capitalize for growth in various markets and verticals, (c) make progress in the North American and European markets and, (d) continue to increase sales and marketing efforts in every market we operate.

Marketing and Business Development Activities

Management has developed, and the board of directors has ratified, an aggressive growth strategy aimed at increasing competitiveness, enhancing global delivery capabilities and increasing financial strength to become a leading global IT institution in the leasing and finance space.

The growth strategy contemplates the following enhanced activities and initiatives to accomplish these goals:

- Build strong C-level executive teams in each key location to execute our long-term strategy.
- Develop and groom the next tier level management for leadership to navigate long term growth.
- Upgrade Bangkok and Beijing offices to support the growing and existing client relationships and new client acquisitions in the region.
- Strengthen the NetSol brand in the Americas and Europe and further penetrate the APAC markets such as China, Thailand, Indonesia, Japan, Australia and New Zealand.
- Develop the sales and account management teams with Ascent domain expertise for the Americas markets, in particular the growth in the US auto and banking sectors.
- Maximize penetration into new and existing smaller markets by increasing the sales activities for our legacy version of NFS™ in emerging markets in Latin America, APAC, and the Middle Eastern regions where the legacy product is better suited to middle market companies to meet their requirements and IT budgets.
- Maintain the quality of our delivery, after delivery support, and client relationships.
- Further penetration of NFS Ascent™ into the leasing and financing sectors in China, APAC, Europe and North America by focusing on multi-national auto captive Fortune 500 companies.
- Continue to implement new tools, systems and processes, such as JIRA, and the Agile frame work to further enhance productivity, efficiencies and operating margins.

Growth Prospects for NFS™

Growth prospects for NFS™ are linked to the maturing of the product portfolio and its growing customer base across different geographic and product markets. NetSol is eyeing key international markets for growth in sales. Its sales strategy now carefully balances expansion into new geographic markets, including North and South America, and further penetration of our leading position in Asia Pacific.

Growth in North America is expected to come from the potential market for replacement of legacy systems. NFS Ascent™ is aimed at providing a highly flexible and robust solution based on the latest technology and advanced architecture for the North American customers looking to replace their legacy systems. We believe that NFS Ascent™ can provide substantial competitive disruption to the market's lagging technology provided by incumbent vendors. The existing customer base may also represent latent demand for increased service and maintenance revenues by offering business process optimization, customization and upgrade services.

Growth in Europe will come from the introduction of NFS Ascent™, which will allow NTE to support larger organizations than those typically selecting the existing LeaseSoft product set, and also opens the door for European expansion. This will attract larger license and professional services revenues across a wider geography. In addition, leveraging the core strengths of NFS Ascent™ will increasingly provide opportunities in the automotive sector where NTE is currently underrepresented.

Growth in NetSol's traditionally strong base in Asia Pacific is expected through diversification across market segments to include new customers in related banking and commercial lending areas. At the same time, the existing customer base is tapped for increased service and maintenance revenues by offering enhanced features and new solutions to emerging customer needs. In addition, there is a potential for NFS Ascent™ in Asia Pacific in the form of existing customers who are looking for replacement of their current system.

In China, NetSol is a leader in the leasing and finance enterprise solution domain. With this position, NetSol continues to enjoy demand for the current NFS™ solution, as well as NFS Ascent™. NetSol will continue strengthening its position within existing multinational auto manufacturers, as well as, local Chinese captive finance and leasing companies. The Chinese auto leasing market is young and low on consumer penetration in comparison with the giant U.S. market. We see a tremendous opportunity to grow demand for our products widely and in new markets in China such as Shanghai.

In Thailand, NetSol established a sales headquarters and client service center. The NetSol Thai operation is the hub for NetSol Global markets and directly supports all APAC markets including China, Indonesia and Australia. Our operation in Bangkok serves a very robust and growing market for leasing companies and regional banks.

MATERIAL TRENDS AFFECTING NETSOL

Management has identified the following material trends affecting NetSol.

Positive trends:

- Improving U.S. economy generally, and particularly auto and banking markets.
- Robust Chinese markets as asset based leasing and finance sector are far from maturity levels.
- Latin American markets, primarily in Mexico, remain largely untapped.
- Pakistan economy growth in gross domestic product reached 4.7% in 2016, according to the Pakistan Bureau of Statistics; and improved credit ratings by Bloomberg, S&P, Moody's and Forbes Pakistan security and geopolitical environment has improved.
- China investment or CPEC (China Pakistan Economic Corridor) has exceeded $50 billion from originally $46 billion in Pakistan on energy and infrastructure projects.
- Continuous strong U.S. auto sales in excess of 17 million units in 2016 according to Auto news.com.
- New emerging markets and IT destinations in Thailand, Malaysia, Indonesia, China and Australia.
- Continued interest from Fortune 500 multinational auto captives and global companies in NetSol Ascent™.
- Growing interest from existing clients in the NFS™ legacy systems in emerging and developing markets.
- Growing demand and traction for upgrading to NFS Ascent™ by existing tier one auto captive clients.
- Higher caliber and quality talent joining NetSol, globally.
- Employee turnover is contained to under 15% level in 2017 from 20% in 2014.

Negative trends:

- Growing Global terrorism and extremism threats in European countries.
- Geopolitical unrest in the Middle East and potential terrorism and the disruption risk it creates.
- Restricted liquidity and financial burden due to tighter internal processes and limited budgets might cause delays in the receivables from some clients.
- The threats of conflict between in the Middle Eastern countries could potentially create volatility in oil prices, causing readjustments of corporate budgets and consumer spending slowing global auto sales.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management’s application of accounting policies. Critical accounting policies for us include revenue recognition and multiple element arrangements, intangible assets, software development costs, and goodwill.

REVENUE RECOGNITION

The Company derives revenues from the following sources: (1) software licenses, (2) services, which include implementation and consulting services, and (3) maintenance, which includes post contract support.

The Company recognizes revenue from license contracts without major customization when a non-cancelable, non-contingent license agreement has been signed, delivery of the software has occurred, the fee is fixed or determinable, and collectability is probable. Delivery is considered to have occurred upon electronic transfer of the license key that provides immediate availability of the product to the purchaser. Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue the Company reports.

If an arrangement does not qualify for separate accounting of the software license and consulting transactions, then new software license revenue is generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed contract method. Contract accounting is applied to any arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license fees; (2) where services include significant modification or customization of the software; (3) where significant consulting services are provided for in the software license contract without additional charge or are substantially discounted; or (4) where the software license payment is tied to the performance of consulting services.

Revenue from consulting services is recognized as the services are performed for time-and-materials contracts. Revenue from training and development services is recognized as the services are performed.

Revenue from maintenance agreements is recognized ratably over the term of the maintenance agreement, typically one year.

Multiple Element Arrangements

The Company may enter into multiple element revenue arrangements in which a customer may purchase a number of different combinations of software licenses, consulting services, maintenance and support, as well as training and development.

Vendor specific objective evidence ("VSOE") of fair value for each element is based on the price for which the element is sold separately. The Company determines the VSOE of fair value of each element based on historical evidence of the Company's stand-alone sales of these elements to third-parties or from the stated renewal rate for the elements contained in the initial software license arrangement. When VSOE of fair value does not exist for any undelivered element, revenue is deferred until the earlier of the point at which such VSOE of fair value exists or until all elements of the arrangement have been delivered. The only exception to this guidance is when the only undelivered element is maintenance and support or other services, then the entire arrangement fee is recognized ratably over the performance period.

COST OF REVENUES

Cost of revenues includes salaries and benefits for technical employees, consultant costs, amortization of capitalized computer software development costs, depreciation of computer and equipment, travel costs, and indirect costs such as rent and insurance.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management regularly reviews the composition of accounts receivable and analyzes customer credit worthiness, customer concentrations, current economic trends and changes in customer payment patterns. Reserves are recorded primarily on a specific identification basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

INTANGIBLE ASSETS

Intangible assets consist of product licenses, renewals, enhancements, copyrights, trademarks, trade names, and customer lists. Intangible assets with finite lives are amortized over the estimated useful life and are evaluated for impairment at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess recoverability by determining whether the carrying value of such assets will be recovered through the discounted expected future cash flows. If the future discounted cash flows are less than the carrying amount of these assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

SOFTWARE DEVELOPMENT COSTS

Costs incurred to internally develop computer software products or to enhance an existing product are recorded as research and development costs and expensed when incurred until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers.

The Company makes on-going evaluations of the recoverability of its capitalized software projects by comparing the amount capitalized for each product to the estimated present value of future net income from the product. If such evaluations indicate that the unamortized software development costs exceed the present value of expected future net income, the Company writes off the amount which the unamortized software development costs exceed such present value. Capitalized and purchased computer software development costs are being amortized ratably based on the projected revenue associated with the related software or on a straight-line basis.

SHARE-BASED COMPENSATION

The Company records stock compensation in accordance with ASC 718, *Compensation – Stock Compensation*. ASC 718 requires companies to measure compensation cost for stock employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. We estimate the grant date fair value of our stock options using the Black-Scholes option-pricing model with the assumptions of expected term, expected volatility, risk-free interest rate and expected dividend. Each of these assumptions is subjective and generally requires significant judgment to determine. We estimate the volatility using our own common stock data.

GOODWILL

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase businesses combination. Goodwill is reviewed for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

The source of the Company's goodwill relates to the acquisition of four companies. NetSol PK operates in the Asia Pacific region; CQ Systems (now NetSol Technologies Europe Limited) and VLS both operate in Europe; and McCue Systems (now NetSol Technologies Americas, Inc.) operates in the North American region. All these geographies are considered as different reporting segments. Goodwill arising from the acquisition of these companies has been allocated to their respective geographical segments to which they relate. While identifying reporting segments, we take into consideration the reports reviewed by the CEO (chief operating decision maker). As our financial reports are analyzed on this regional basis, we have defined this as segment reporting for purposes of goodwill impairment testing. The Company tests for goodwill impairment at each reporting unit.

Recent Accounting Pronouncement

See Note 2 "Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for a full description of recent accounting pronouncements, including the expected dates of adoption.

RESULTS OF OPERATIONS

THE YEAR ENDED JUNE 30, 2017 COMPARED TO THE YEAR ENDED JUNE 30, 2016

The following table sets forth the items in our consolidated statement of operations for the years ended June 30, 2017 and 2016 as a percentage of revenues.

	2017	%	2016	%
Net Revenues:				
License fees	$18,218,912	27.87 %	$8,352,441	12.94 %
Maintenance fees	14,157,367	21.66 %	13,310,591	20.62 %
Services	24,798,899	37.94 %	30,037,459	46.53 %
License fees - related party	246,957	0.38 %	1,616,138	2.50 %
Maintenance fees - related party	311,359	0.48 %	365,772	0.57 %
Services - related party	7,632,774	11.68 %	10,867,792	16.84 %
Total net revenues	65,366,268	100.00%	64,550,193	100.00%
Cost of revenues:				
Salaries and consultants	24,645,223	37.70 %	21,789,329	33.76 %
Travel	3,137,671	4.80 %	2,334,019	3.62 %
Depreciation and amortization	5,448,059	8.33 %	5,926,969	9.18 %
Other	3,727,379	5.70 %	3,698,290	5.73 %
Total cost of revenues	36,958,332	56.54 %	33,748,607	52.28 %
Gross profit	28,407,936	43.46 %	30,801,586	47.72 %
Operating expenses:				
Selling and marketing	9,746,229	14.91 %	7,823,916	12.12 %
Depreciation and amortization	1,114,275	1.70 %	1,225,170	1.90 %
Provision for bad debts	1,407,751	2.15 %	237,703	0.37 %
General and administrative	16,747,550	25.62 %	14,727,313	22.82 %
Research and development cost	393,345	0.60 %	485,783	0.75 %
Total operating expenses	29,409,150	44.99 %	24,499,885	37.95 %
Income from (loss) operations	(1,001,214)	-1.53 %	6,301,701	9.76 %
Other income and (expenses)				
Gain (loss) on sale of assets	(30,147)	-0.05 %	23,930	0.04 %
Interest expense	(310,044)	-0.47 %	(264,511)	-0.41 %
Interest income	179,723	0.27 %	161,794	0.25 %
Gain (loss) on foreign currency exchange transactions	306,819	0.47 %	(738,158)	-1.14 %
Other income (expense)	50,378	0.08 %	224,931	0.35 %
Total other income (expenses)	196,729	0.30 %	(592,014)	-0.92 %

Net income (loss) before income taxes	(804,485)	-1.23 %	5,709,687	8.85 %
Income tax provision	(931,951)	-1.43 %	(652,546)	-1.01 %
Net income (loss)	(1,736,436)	-2.66 %	5,057,141	7.83 %
Non-controlling interest	(3,241,594)	-4.96 %	(1,654,380)	-2.56 %
Net income (loss) attributable to NetSol	$(4,978,030)	-7.62 %	$3,402,761	5.27 %

A significant portion of our business is conducted in currencies other than the U.S. dollar. We operate in several geographical regions as described in Note 19 “Segment Information and Geographic Areas” within the Notes to the Consolidated Financial Statements. Weakening of the value of the U.S. dollar compared to foreign currency exchange rates generally has the effect of increasing our revenues but also increasing our expenses denominated in currencies other than the U.S. dollar. Similarly, strengthening of the U.S. dollar compared to foreign currency exchange rates generally has the effect of reducing our revenues but also reducing our expenses denominated in currencies other than the U.S. dollar. We plan our business accordingly by deploying additional resources to areas of expansion, while continuing to monitor our overall expenditures given the economic uncertainties of our target markets. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the changes in results from one period to another period using constant currency. In order to calculate our constant currency results, we apply the current period results to the prior period foreign currency exchange rates. In the table below, we present the change based on actual results in reported currency and in constant currency.

	For the Year Ended June 30, 2017	%	2016	%	Favorable (Unfavorable) Change in Constant Currency	Favorable (Unfavorable) Change due to Currency Fluctuation	Total Favorable (Unfavorable) Change as Reported
Net Revenues:	65,366,268	100.00%	64,550,193	100.00%	2,166,632	(1,350,557)	816,075
Cost of revenues:	36,958,332	56.54%	33,748,607	52.28%	(3,878,280)	668,555	(3,209,725)
Gross profit	28,407,936	43.46%	30,801,586	47.72%	(1,711,648)	(682,002)	(2,393,650)
Operating expenses:	29,409,150	44.99%	24,499,885	37.95%	(5,855,816)	946,551	(4,909,265)
Income (loss) from operations	(1,001,214)	-1.53%	6,301,701	9.76%	(7,567,464)	264,549	(7,302,915)

Net revenues for the years ended June 30, 2017 and 2016 by segment are as follows:

	2017 Revenue	%	2016 Revenue	%
North America	$5,624,434	8.60%	$5,464,740	8.47%
Europe	6,850,320	10.48%	10,670,117	16.53%
Asia-Pacific	52,891,514	80.92%	48,415,336	75.00%
Total	$65,366,268	100.00%	$64,550,193	100.00%

Revenues

License fees

License fees for the year ended June 30, 2017 were $18,218,912 compared to $8,352,441 for the year ended June 30, 2016 reflecting an increase of $9,866,471 with a change in constant currency of $9,933,367. The increase in license revenue for the fiscal year ended June 30, 2017 compared to 2016 is primarily due to the $16,345,000 of license revenue recognized for the 12 country NFS Ascent contract. We also had license revenues through sales of our regional offerings in the U.S. and the U.K.

License fees – related party

License fees from related party for the year ended June 30, 2017 were $246,957 compared to $1,616,138 for the year ended June 30, 2016 reflecting a decrease of $1,369,181 with a change in constant currency of $1,326,335. The decrease in license revenue for the fiscal year ended June 30, 2017 compared to 2016 is due to unexpected delays in a complex implementation during fiscal year 2017.

Maintenance fees

Maintenance fees for the year ended June 30, 2017 were $14,157,367 compared to $13,310,591 for the year ended June 30, 2016 reflecting an increase of $846,776 with a change in constant currency of $1,170,153. Maintenance fees begin once a customer has "gone live" with our product. The increase was due to the start of new maintenance agreements from customers who went live with our product during the latter stages of fiscal year 2016 and into fiscal year 2017. We anticipate maintenance fees to gradually increase as we implement both our NFS legacy product and NFS Ascent™.

Maintenance fees – related party

Maintenance fees from related party for the year ended June 30, 2017 were $311,359 compared to $365,772 for the year ended June 30, 2016 reflecting a decrease of $54,413 with a change in constant currency of $1,353. The decrease was due to fluctuation in foreign currency translation.

Services

Services income for the year ended June 30, 2017 was $24,798,899 compared to $30,037,459 for the year ended June 30, 2016 reflecting a decrease of $5,238,560 with a change in constant currency of $4,486,525. The services revenue decrease was due to a decrease in services revenue associated with new implementations and change requests. Services revenue is derived from services provided to both current customers as well as services provided to new customers as part of the implementation process.

Services – related party

Services income from related party for the year ended June 30, 2017 was $7,632,774 compared to $10,867,792 for the year ended June 30, 2016 reflecting a decrease of $3,235,018 with a change in constant currency of $3,125,381. The decrease in related party service revenue is due to a decrease in revenue from our joint venture with 1insurer of approximately $2,500,000 and a decrease of approximately $1,700,000 due to implementation delays, offset by an approximately $975,000 increase in service revenue related to services performed for WRLD3D.

Gross Profit

The gross profit was $28,407,936, for the year ended June 30, 2017 as compared with $30,801,586 for the year ended June 30, 2016. This is a decrease of $2,393,650 with a decrease in constant currency of $1,711,648. The gross profit percentage for the year ended June 30, 2017 also decreased to 43.5% from 47.7% for the year ended June 30, 2016. The cost of sales was $36,958,332 for the year ended June 30, 2017 compared to $33,748,607 for the year ended June 30, 2016, for an increase of $3,209,725 and on a constant currency basis an increase of $3,878,280. As a percentage of sales, cost of sales increased from 52.3% for the year ended June 30, 2016 to 56.5% for the year ended June 30, 2017.

Salaries and consultant fees increased by $2,855,894 from $21,789,329 for the year ended June 30, 2016 to $24,645,223 for the year ended June 30, 2017 and on a constant currency basis increased $3,253,753. The increase in salaries and consultant fees is due to the hiring and training of technical employees at key locations including Pakistan, Thailand, China, UK and North America as we anticipated new projects associated with NFS Ascent™. In order to prepare for growth with our new product NFS Ascent™, we continued to focus on hiring technical personnel. However, due to the decline in revenues, we began cost cutting measures during Q3 of fiscal year 2017. We had 1,195, 1,234 and 1,081 technical employees as of June 30, 2015, 2016 and 2017, respectively. As a percentage of sales, salaries and consultant expense increased from 33.8% for the year ended June 30, 2016 to 37.7% for the year ended June 30, 2017.

Depreciation and amortization expense decreased to $5,448,059 compared to $5,926,969 for the year ended June 30, 2016 or a decrease of $478,910 and on a constant currency basis a decrease of $504,554. Depreciation and amortization expense decreased as some products became fully amortized.

Operating Expenses

Operating expenses were $29,409,150 for the year ended June 30, 2017 compared to $24,499,885, for the year ended June 30, 2016 for an increase of 20.0% or $4,909,265 and on a constant currency basis an increase of 23.9% or $5,855,816. As a percentage of sales, it increased from 38.0% to 45.0%. The increase in operating expenses was primarily due to increases in selling and marketing expenses, provision for bad debt, and general and administrative expenses.

Selling and marketing expenses increased $1,922,313 or 24.6% and on a constant currency basis an increase of $2,228,963 or 28.5%. The increase in selling and marketing expenses is due to the increase in our salaries and commissions, travel expenses, and business development costs to market and sell NFS Ascent™ globally.

Provision for bad debt increased by approximately $1,170,048 or $1,297,623 on a constant currency basis as certain accounts were estimated to be uncollectible.

General and administrative expenses were $16,747,550 for the year ended June 30, 2017 compared to $14,727,313 at June 30, 2016 or an increase of $2,020,237 or 13.7% and on a constant currency basis an increase of $2,499,144 or 17.0%. During the year ended June 30, 2017, salaries increased by approximately $2,758,127 or $2,957,980 on a constant currency basis due to the increase in the number of employees, annual raises, share grants, cash bonuses and options, and other general and administrative expenses decreased by approximately $770,208 or $526,883 on a constant currency basis.

Income/Loss from Operations

Loss from operations was $1,001,214 for the year ended June 30, 2017 compared to income of $6,301,701 for the year ended June 30, 2016. This represents a decrease of $7,302,915 with a decrease of 7,567,464 on a constant currency basis for the year ended June 30, 2017 compared with the year ended June 30, 2016. As a percentage of sales, loss from operations was 1.53% for the year ended June 30, 2017 compared to income of 9.76% % for the year ended June 30, 2016.

Net Income/Loss

Net loss was $4,978,030 for the year ended June 30, 2017 compared to net income of $3,402,761 for the year ended June 30, 2016. This is a decrease of $8,380,791 with a decrease of $8,684,151 on a constant currency basis, compared to the prior year. For the year ended June 30, 2017, net loss per share was $0.46 for basic and diluted shares. For the year ended June 30, 2016, income per share was $0.33 and $0.32 for basic and diluted shares, respectively.

Non-GAAP Financial Measures

Regulation S-K Item 10(e), "Use of Non-GAAP Financial Measures in Commission Filings," defines and prescribes the conditions for use of non-GAAP financial information. Our measures of adjusted EBITDA and adjusted EBITDA per basic and diluted share meet the definition of a non-GAAP financial measure.

We define the non-GAAP measures as follows:

EBITDA is GAAP net income before net interest expense, income tax expense, depreciation and amortization.

Non-GAAP adjusted EBITDA is EBITDA less stock-based compensation expense.

Adjusted EBITDA per basic and diluted share – Adjusted EBITDA allocated to common stock divided by the weighted average shares outstanding and diluted shares outstanding.

We use non-GAAP measures internally to evaluate the business and believe that presenting non-GAAP measures provides useful information to investors regarding the underlying business trends and performance of our ongoing operations as well as useful metrics for monitoring our performance and evaluating it against industry peers. The non-GAAP financial measures presented should be used in addition to, and in conjunction with, results presented in accordance with GAAP, and should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review our consolidated financial statements in their entirety and not to rely on any single financial measure in evaluating the Company.

The non-GAAP measures reflect adjustments based on the following items:

EBITDA: We report EBITDA as a non-GAAP metric by excluding the effect of net interest expense, income tax expense, depreciation and amortization from net income because doing so makes internal comparisons to our historical operating results more consistent. In addition, we believe providing an EBITDA calculation is a more useful comparison of our operating results to the operating results of our peers.

Stock-based compensation expense: We have excluded the effect of stock-based compensation expense from the non-GAAP adjusted EBITDA and non-GAAP adjusted EBITDA per basic and diluted share calculations. Although stock-based compensation expense is calculated in accordance with current GAAP and constitutes an ongoing and recurring expense, such expense is excluded from non-GAAP results because it is not an expense which generally requires cash settlement by NetSol, and therefore is not used by us to assess the profitability of our operations. We also believe the exclusion of stock-based compensation expense provides a more useful comparison of our operating results to the operating results of our peers.

<u>Non-controlling interest:</u> We add back the non-controlling interest in calculating gross adjusted EBITDA and then subtract out the income taxes, depreciation and amortization and net interest expense attributable to the non-controlling interest to arrive at a net adjusted EBITDA.

Our reconciliation of the non-GAAP financial measures of adjusted EBITDA and non-GAAP earnings per basic and diluted share to the most comparable GAAP measures for the years ended June 30, 2017 and 2016 are as follows:

	Year Ended June 30, 2017	Year Ended June 30, 2016
Net Income (loss) before preferred dividend, per GAAP	$(4,978,030)	$3,402,761
Non-controlling interest	3,241,594	1,654,380
Income taxes	931,951	652,546
Depreciation and amortization	6,562,334	7,152,139
Interest expense	310,044	264,511
Interest (income)	(179,723)	(161,794)
EBITDA	$5,888,170	$12,964,543
Add back:		
Non-cash stock-based compensation	2,763,323	1,533,209
Adjusted EBITDA, gross	$8,651,493	$14,497,752
Less non-controlling interest (a)	(5,841,143)	(5,363,326)
Adjusted EBITDA, net	$2,810,350	$9,134,426
Weighted Average number of shares outstanding		
Basic	10,912,284	10,391,157
Diluted	10,919,169	10,584,835
Basic adjusted EBITDA	$0.26	$0.88
Diluted adjusted EBITDA	$0.26	$0.86

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

Net Income attributable to non-controlling interest	$3,241,594	$1,654,380
Income Taxes	140,499	178,689
Depreciation and amortization	2,168,249	3,442,235
Interest expense	98,331	51,023
Interest (income)	(60,042)	(98,638)
EBITDA	$5,588,631	$5,227,689
Add back:		
Non-cash stock-based compensation	252,512	135,637
Adjusted EBITDA of non-controlling interest	$5,841,143	$5,363,326

As of June 30, 2017, the compensation expense related to unvested stock grants was $2,565,438 which will be recognized during fiscal years 2018 and 2019.

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was $14,172,954 at June 30, 2017, compared to $11,557,527 at June 30, 2016.

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Net cash provided by operating activities was $454,365 for the year ended June 30, 2017 compared to $1,659,036 for the year ended June 30, 2016. At June 30, 2017, we had current assets of $44,272,075 and current liabilities of $21,117,015. We had accounts receivable of $8,228,141 at June 30, 2017 compared to $15,382,407 at June 30, 2016. We had revenues in excess of billings of $24,380,632 at June 30, 2017 compared to $11,297,264 at June 30, 2016 of which $5,173,538 is shown as long term as of June 30, 2017. The long-term portion was discounted by $310,331 using the discounted cash flow method with an interest rate of 3.96% which is NetSol PK's weighted average borrowing rate at June 30, 2017. During the year ended June 30, 2017, our revenues in excess of billings were reclassified to accounts receivable pursuant to billing requirements detailed in each contract. The combined totals for accounts receivable and revenues in excess of billings increased by $5,929,102 from $26,679,671 at June 30, 2016 to $32,608,773 at June 30, 2017. The increase is due to the increase in revenues recognized on the 12 country NFS Ascent contract. Accounts payable and accrued expenses, and current portions of loans and lease obligations amounted to $6,880,194 and $10,222,795, respectively at June 30, 2017. The average days sales outstanding for the years ended June 30, 2017 and 2016 were 165 and 119 days respectively. The days sales outstanding have been calculated by taking into consideration the average combined balances of accounts receivable and revenue in excess of billings.

Net cash used by investing activities amounted to $2,727,740 for the year ended June 30, 2017, compared to $3,672,441 for the year ended June 30, 2016. We had net purchases of property and equipment of $1,422,185 compared to $2,349,488 for the comparable period last fiscal year. For the year ended June 30, 2017, we invested $200,000 in a short-term convertible note receivable from WRLD3D, Inc. ("WRLD3D"), (formerly "eeGeo, Inc."). For the year ended June 30, 2017, we invested $2,336,670 in WRLD3D by paying cash of $1,105,555 and providing services valued at $1,231,115 compared to cash payments of $555,556 for the fiscal year ended June 30, 2017. We used $nil and $767,397 for the years ended June 30, 2017 and 2016, respectively, to purchase shares of NetSol PK on the open market.

Net cash provided by financing activities was $4,377,249 and $598,179 for the years ended June 30, 2017, and 2016, respectively. The year ended June 30, 2017 included the cash inflow of $866,438 from the exercising of stock options and warrants compared to $1,137,480 for the year ended June 30, 2016. The Company purchased 7,500 of its common stock from the open market at an average price of $5.18 per share. During the year ended June 30, 2017, we had net proceeds from bank loans and capital leases of $5,630,587 compared to $382,877 for the year ended June 30, 2016. We are operating in various geographical regions of the world through its various subsidiaries. Those subsidiaries have financial arrangements from various financial institutions to meet both their short and long term funding requirements. These loans will become due at different maturity dates as described in Note 14 of the financial statements. We are in compliance with the covenants of the financial arrangements and there is no default which may lead to early payment of these obligations. We anticipate paying back all these obligations on their respective due dates.

We typically fund the cash requirements for our operations in the U.S. through our license, services, and maintenance agreements, intercompany charges for corporate services, and through the exercise of options and warrants. As of June 30, 2017, we have approximately $14.17 million of cash, cash equivalents and marketable securities of which approximately $11.56 million is held by our foreign subsidiaries. As of June 30, 2016, we had approximately $11.56 million of cash, cash equivalents and marketable securities of which approximately $7.64 million is held by our foreign subsidiaries. We intend to permanently reinvest these funds outside the U.S., and therefore, we do not anticipate repatriating undistributed earnings from our non-U.S. operations. If funds from foreign operations are required to fund U.S. operations in the future and if U.S. tax has not previously been provided, we would be required to accrue and pay additional U.S. taxes to repatriate these funds.

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

As a growing company, we have on-going capital expenditure needs based on our short term and long term business plans. Although our requirements for capital expenses vary from time to time, for the next 12 months, we anticipate needing working capital of $1 to $2 million for APAC, U.S. and European new business development activities and infrastructure enhancements.

While there is no guarantee that any of these methods will result in raising sufficient funds to meet our capital needs or that even if available will be on terms acceptable to us, we will be very cautious and prudent about any new capital raise given the global market uncertainties. However, we are very conscious of the dilutive effect and price pressures in raising equity-based capital.

Financial Covenants

Our UK based subsidiary, NTE, has an approved overdraft facility of £300,000 ($389,610) which requires that the aggregate amount of invoiced trade debtors (net of provisions for bad and doubtful debts and excluding intra-group debtors) of NTE, not exceeding 90 days old, will not be less than an amount equal to 200% of the facility. The Pakistani subsidiary, NetSol PK has an approved facility for export refinance from Askari Bank Limited amounting to Rupees 500 million ($4,776,461) which requires NetSol PK to maintain a long-term debt equity ratio of 60:40 and the current ratio of 1:1. During the year, NetSol PK availed an export refinance facility of Rs. 200 million ($1,910,585) and a running finance facility of Rs. 300 million ($2,865,877) from Samba Bank Limited. These two facilities require NetSol PK to maintain at a minimum of current ratio of 1:1, Interest coverage ratio 4 times, Leverage 2 times and Debt Service Coverage Ratio 4 times during the tenure of loan.

As of the date of this report, we are in compliance with the financial covenants associated with our borrowings. The maturity dates of the borrowings of respective subsidiaries may accelerate if they do not comply with these covenants. In case of any change in control in subsidiaries, they may have to repay their respective credit facilities.

Dividends and Redemption

It has been our policy to invest earnings in growth rather than distribute earnings as common stock dividends. This policy, under which common stock dividends have not been paid since our inception is expected to continue, but is subject to regular review by the Board of Directors.

Contractual Obligations

Our contractual obligations are as follows:

Contractual Obligation	Payment due by period Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Debt Obligations					
D&O Insurance	$87,485	$87,485	$-	$-	$-
Bank Overdraft Facility	221,379	221,379	-	-	-
Loan Payable Bank - Export Refinance	4,776,461	4,776,461	-	-	-
Loan Payable Bank - Export Refinance	1,910,585	1,910,585	-	-	-
Loan Payable Bank - Running Finance	2,865,877	2,865,877	-	-	-
Capital Lease Obligations					-
Subsidiary Capital Leases	727,770	361,008	366,762	-	-
					-
Operating Lease Obligations					-
Non-cancellable operating lease	2,445,105	1,121,034	946,029	226,161	151,881
					-
Total	$13,034,662	$11,343,829	$1,312,791	$226,161	$151,881

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in currency exchange rates and interest rates.

Foreign Currency Exchange Risk

Economic Exposure

We transact business in various foreign currencies and have significant international revenues, as well as costs denominated in foreign currencies. This exposes us to the risk of fluctuations in foreign currency exchange rates. Since the majority of the Company's operations are based in the Asia Pacific region where the Pakistan Rupee is continuously losing its value against the US Dollar and we don't have any imports; therefore, we believe it is counter-productive to hedge this exposure. The devaluation of the Pakistan Rupee results in a foreign exchange gain to the Company.

Transaction Exposure

Our exposure to foreign currency transaction gains and losses is the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the functional currency of the subsidiary, primarily the Euro, Yuan, Baht and the Pakistan Rupee. Our foreign subsidiaries conduct their businesses in local currency. Since majority of the operations of the Company are based in the Asia Pacific region where the Pakistan Rupee is continuously losing its value against the US Dollar and we don't have any imports; therefore, we believe it is counter-productive to hedge this exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements that constitute Item 8 are included at the end of this report on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NetSol's financial statements for the fiscal years ended June 30, 2017 and June 30, 2016, did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audit of NetSol's financial statements for the fiscal years ended June 30, 2017 and June 30, 2016, there were no disagreements, disputes, or differences of opinion with KSP Group, Inc. ("KSP") on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures, which, if not resolved to the satisfaction of KSP would have caused KSP to make reference to the matter in its report.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

Our management has the responsibility to establish and maintain adequate internal controls over our financial reporting, as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Our internal controls are designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our external financial statements in accordance with generally accepted accounting principles (GAAP).

Due to inherent limitations of any internal control system, management acknowledges that there are limitations as to the effectiveness of internal controls over financial reporting and therefore recognize that only reasonable assurance can be gained from any internal control system. Accordingly, our internal control system may not detect or prevent material misstatements in our financial statements and projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, we have performed an assessment of the effectiveness of our internal controls over financial reporting as of June 30, 2017. This assessment was based on the criteria established in Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of our assessment, the Company has determined that as of June 30, 2017, the Company's internal control over financial reporting are not effective due to the material weakness described below.

A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness was identified in our form 10-Q filed on May 22, 2017 relating to the restatement of certain quarterly financial information, as described therein.

The Company is in the process of remediating the material weakness, including, but not limited to, by continuing the implementation of a leading cloud-based global ERP system, as approved by the Company's Board in fiscal year 2016, which is already live in certain locations, and is expected to be completed by June 30, 2018. Further, on June 7**,** 2017, the Company engaged an internal audit consulting firm to advise and assist with the remediation and internal control improvements, including to assist with the expansion and training of the Company's internal audit function, and to augment corporate oversight and internal audit coverage.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the fourth quarter of fiscal year 2017, that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)).

ITEM 9B. OTHER INFORMATION

The Company purchased shares of its common stock according to a repurchase plan since the last reporting period as follows:

Issuer Purchases of Equity Securities (1)

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may be Purchased Under the Plans or Programs
Jul-17	20,247	$ 4.32	20,247	-
Aug-17	91,533	$ 4.51	111,780	-
Total	111,780		111,780	1,000,000

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Company's directors and executive officers and persons owning more than 10% of the outstanding Common Stock, file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Executive officers, directors and beneficial owners of more than 10% of the Company's Common Stock are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on copies of such forms furnished as provided above, or written representations that no such forms were required, the Company believes that during the fiscal year ended June 30, 2017, all Section 16(a) filing requirements applicable to its executive officers, directors and beneficial owners of more than 10% of its Common Stock were complied with.

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

Board of Directors

At the 2017 Annual Shareholders Meeting, a five-member board stood for election. The members were elected and, according to the bylaws of the company shall retain their position as directors until the next meeting. The board of directors is made up of: Mr. Najeeb U. Ghauri (Chairman of the Board) Mr. Eugen Beckert, Mr. Naeem U. Ghauri, Mr. Shahid Burki and, Mr. Mark Caton.

Committees

The Audit committee is made up of Mr. Burki as Chairman, and Mr. Caton and, Mr. Beckert as members. The Compensation committee consists of Mr. Caton as its Chairman and Mr. Beckert and, Mr. Burki as its members. The Nominating and Corporate Governance Committee consists of Mr. Beckert as chairman and Mr. Burki and, Mr. Caton as its members.

The table below provides the membership for each of the committees during Fiscal Year 2017.

Director	**Audit Committee**	**Compensation Committee**	**Nominating and Corporate Governance Committee**
Najeeb Ghauri			

Naeem Ghauri

Shahid J. Burki (I)	X	(C)	X		X	
Eugen Beckert (I)	X		X		X	(C)
Mark Caton (I)	X		X	(C)	X	

(I) Denotes an independent director.
(C) Denotes the Chairperson of the committee.

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DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the names and ages of the current directors and executive officers of the Company, the principal offices and positions with the Company held by each person and the date such person became a director or executive officer of the Company. The Board of Directors elects the executive officers of the Company annually. Each year the stockholders elect the Board of Directors. The executive officers serve varying terms until their death, resignation or removal by the Board of Directors. In addition, there was no arrangement or understanding between any executive officer and any other person pursuant to which any person was selected as an executive officer.

The directors and executive officers of the Company are as follows:

Name	Year First Elected As an Officer or Director	Age	Position Held with the Registrant	Family Relationship
Najeeb Ghauri	1997	63	Chief Executive Officer, Chairman and Director	Brother to Naeem Ghauri
Roger Almond	2013	52	Chief Financial Officer	None
Patti L. W. McGlasson	2004	52	Sr. V.P., Legal and Corporate Affairs; Secretary, General Counsel	None
Naeem Ghauri	1999	60	Director	Brother to Najeeb Ghauri
Shahid Javed Burki	2000	78	Director	None
Eugen Beckert	2001	70	Director	None
Mark Caton	2002	68	Director	None

Business Experience of Officers and Directors:

NAJEEB U. GHAURI is the Chief Executive Officer and Chairman of NetSol. He has been a Director of the Company since 1997, Chairman since 2003 and Chief Executive Officer from January 1998 to September 2002 and from October 2006 to present. Mr. Ghauri is a co-founder of NetSol Technologies, Inc. He was responsible for NetSol listing on NASDAQ in 1999, the NetSol subsidiary listing on KSE (Karachi Stock Exchange) in 2005, and the NetSol listing on the NASDAQ Dubai exchange in 2008. Mr. Ghauri served as the Company’s Chief Executive Officer from 1999 to 2001 and as the Chief Financial Officer from 2001 to 2005. As CEO, Mr. Ghauri is responsible for managing the day-to-day operations of the Company, as well as the Company’s overall growth and expansion plan. Mr. Najeeb Ghauri, as the CEO, was instrumental in the substantial increase in revenue for fiscal year end 2015. In addition, Mr. Ghauri traveled overseas multiple times to execute the largest contract for the Company, worth over $100 million, in December 2015. Prior to joining the Company, Mr. Ghauri was part of the marketing team of Atlantic Richfield Company (ARCO) (now acquired by BP), a Fortune 500 company, from 1987-1997. Prior to ARCO, he spent nearly five years with Unilever as brand and sales managers. Mr. Ghauri attended Eastern Illinois University where he received a Bachelor of Science degree in Management/Economics in 1978. He also received an M.B.A. in Marketing Management from Claremont Graduate School in California in 1981. Mr. Ghauri was elected Vice Chairman of US Pakistan Business Council in 2006, a Washington D.C. based council of US Chamber of Commerce. He is also very active in several philanthropic activities in emerging markets and is a founding director of Pakistan Human Development Fund, a non-profit organization, a partnership with UNDP to promote literacy, health services and poverty alleviation in Pakistan. Mr. Ghauri has participated in NASDAQ opening and/or closing bell ceremonies in 2006, 2008 and 2009.

ROGER ALMOND was appointed Chief Financial Officer on September 9, 2013.

Since 2007, Roger Almond held the position of Senior Manager at Pickard & Green Certified Public Accountants where he and his team was responsible for assisting national and international companies with their financial reporting requirements to the SEC. Roger Almond's duties also included overseeing multiple entity consolidations, converting financial data to US GAAP, preparing financials statements, footnotes and MD&A. Prior to his current position, Roger Almond held the position of Assurance Manager at Grant Thornton LLP, in Los Angeles, California from 2003-2006; and from November 1999 to August 2003. He was the Chief Financial Officer of Keysor Century Corporation located in Saugus, California.

Roger Almond received his BS in Accounting from Brigham Young University in 1991 and he is a Certified Public Accountant licensed in California. He has also completed executive management courses at UCLA in 2001.

PATTI L. W. MCGLASSON joined NetSol as General Counsel in January 2004 and was elected to the position of Secretary in March 2004. She was appointed Senior Vice President, Corporate and Legal Affairs in 2013.

In the role of General Counsel, Ms. McGlasson is responsible for leading NetSol's legal department company-wide. She is also responsible for the implementation of the Company's internal corporate governance and policy plans, ethics and business conduct. She oversees all board meetings in her executive position as corporate secretary.

Ms. McGlasson has nearly 25 years of experience in corporate law, mergers and acquisitions, business and cross-border transactions and securities law. Prior to joining NetSol, Patti practiced at Vogt & Resnick, law corporation. She was admitted to practice in California in 1991.

She received her Bachelor of Arts in Political Science in 1987 from the University of California, San Diego and, her Juris Doctor and Masters in Law in Transnational Business from the University of the Pacific, McGeorge School of Law, in 1991 and 1993, respectively. As part of her Masters in Law in Transnational Business, she interned at the law firm of Loeff Claeys Verbeke in Rotterdam, the Netherlands in 1991.

NAEEM GHAURI has been a Director of the Company since 1999 and was the Company's Chief Executive Officer from August 2001 to October 2006. Mr. Ghauri was also a co-founder of the Company. Currently, Mr. Ghauri serves as the President and Head of Global Sales of NetSol as well as the director of NetSol (UK) Ltd., a wholly owned subsidiary of the Company located in London, England. While instrumental in numerous transactions, his most significant and recent contribution to the revenue of the Company was his role in overseeing and leading the closing of the largest contract to date for the Company worth $100 million signed in December 2015. Prior to joining the Company, Mr. Ghauri was Program Director for Mercedes-Benz Finance Ltd., from 1994-1999. Mr. Ghauri supervised over 200 project managers, developers, analysis and users in nine European Countries.

EUGEN BECKERT was appointed to the Board of Directors in August 2001. A native of Germany, Mr. Beckert received his master's in Engineering and Economics from the University of Karlsruhe, Germany.

Mr. Beckert was with Daimler AG during his career, initially working in technology and systems development of the car division. Other appointments include servicing as Vice President Corporate Strategy from 1991 and Director of Global IT (CIO) for Daimler Financial Services from 1993. From 1996 to 2000, he acted as Director of Processes and Systems (CIO) for Financial Services Asia Pacific out of Singapore. During this period he was instrumental to having the LeaseSoft products of NetSol developed and introduced in several countries. From 2001 to 2004, he served as Vice President in the Japanese company of Daimler. From 2005 he was overseeing the implementation of LaeseSoft in the newly established Daimler Finance company in China. Mr. Beckert retired from Daimler in November 2006.

Mr. Beckert is chairman of the Nominating and Corporate Governance Committee and a member of the Audit and Compensation Committees.

SHAHID JAVED BURKI was first appointed to the Board of Directors in February 2003. Before joining the World Bank in 1974 he was a member of the Civil Service of Pakistan. He had a distinguished career with the World Bank from 1974 to 1999 where he held a number of senior positions including Chief of Policy Planning (1974-1981); Director of International Relations Department (1981-87); Director of China Department (1987-94); and Vice President of Latin America and the Caribbean Region (1994-99). Upon taking early retirement from the Bank, he took up the position of Chief Executive Officer of EMP Financial Advisors, a consulting company linked with the Washington based EMP Global, a private equity firm and worked there until 2005. He is currently Chairman the Institute of Public Policy, a think tank associated with the Beacon house National University, Lahore, Pakistan. He also spends some time each year as Senior Visiting Research Fellow at the Institute of South Asian Studies, National Singapore University. In 1996-97 he took leave of absence from the World Bank to take up the position of Finance Minister of Pakistan. Mr. Burki was educated at Government College, Lahore from where he received M.Sc. in Physics; at Oxford University as a Rhodes Scholar from where he received M.A. (Hons) in Economics; at Harvard University as a Mason Fellow from where he received M.P.A. and also studied for Ph.D. in Economics (not completed). In 1997, he received a Diploma in Advanced Management from Harvard University's Business School. Mr. Burki has authored several books and articles on development issues including *Study of Chinese Communes* (Harvard University Press, 1969); *Pakistan Under Bhutto* (Macmillan, 1990); *Changing Perceptions, Altered Reality: Pakistan's Economy Under Musharraf, 1999-2006* (Oxford University Press, 2007). Finally, Mr. Burki's most recent book is *Rising Powers and Global Governance* which was published in January 2107 (Macmillan Palgrave, New York). Mr. Burki is the chairman of the Audit Committee and a member of the Compensation and Nominating and Corporate Governance Committees. Mr. Burki is the Company's Financial Expert on the Audit Committee.

MARK CATON joined the board of directors in 2007. Mr. Caton is currently President of Ciena Financial, Inc. a diversified financial services company, a position he has held since 2003. Prior to joining Ciena, Mr. Caton was President of NetSol Technologies USA, responsible for US sales, from June 2002 to December 2003. Mr. Caton was employed by ePlus from 1997 to 2002 as Senior Account Representative. He was a member of the UCLA Alumni Association Board of Directors and served on the Board of Directors of NetSol from 2002-2003. Mr. Caton is a Chairman of the Compensation Committee and a member of the Audit and Nominating Committees. Mr. Caton received his BA from UCLA in psychology in 1971.

CORPORATE GOVERNANCE

Code of Business Conduct & Ethics

The Company adopted its Code of Business Conduct & Ethics, as amended and restated on September 9, 2013, applicable to every officer, director and employee of the Company, including, but not limited to the Company’s principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions. Our Code of Business Conduct & Ethics has been posted on our website and may be viewed at http://ir.netsoltech.com/governance-docs.

Audit Committee

The Company has an audit committee whose members are the independent directors of the Company, specifically, Mr. Beckert, Mr. Burki and, Mr. Caton. Mr. Burki is the current chairman of the audit committee.

Audit Committee Financial Expert

The Company has identified its audit chairperson, Mr. Shahid Javed Burki as its audit committee financial expert. Mr. Burki is an independent board member as the term is defined in the Nasdaq Listing Rules. Mr. Burki’s experience as Finance Minister of Pakistan, Chief Executive Officer of EMP Financial Advisors, his various roles at the World Bank, and his tenure as both an audit committee member and chair for the Company, provides him with an understanding of generally accepted accounting principles and financial reporting. Additionally, this experience provides an ability to assess the general application of accounting principles in connection with the accounting for estimates, accruals and reserves; experience analyzing financial statements that were comparable in the breadth and complexity of issues that can be reasonably expected to be raised by the Company’s financial statements; an understanding of internal control over financial reporting; and an understanding of audit committee functions.

ITEM 11-EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

NetSol Technologies' Named Executive Officers, a group comprised of the Chief Executive Officer, the Chief Financial Officer and the Secretary and General Counsel in the 2016-2017 fiscal year are the following individuals:

Najeeb Ghauri	Chief Executive Officer
Roger K. Almond	Chief Financial Officer
Patti L. W. McGlasson	Sr. V.P. Legal and Corporate Affairs, Secretary and General Counsel

Compensation Philosophy and Objectives

The Compensation Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and which aligns executives' interests with those of the stockholders by rewarding performance at or above established goals, with the ultimate objective of increasing stockholder value. The philosophy of the Compensation Committee is to evaluate both performance and compensation to ensure that we maintain our ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of our peer companies. To that end, the Compensation Committee believes executive compensation packages should include both cash and equity-based compensation that reward performance as measured against established goals.

Setting Executive Compensation

Management develops our compensation plans by utilizing publicly available compensation data in the media services and technology industries. We believe that the practices of these groups of companies provide us with appropriate compensation benchmarks, because these groups of companies are in similar businesses and tend to compete with us for executives and other employees. For benchmarking executive compensation, we typically review the compensation data we have collected from these groups of companies, as well as a subset of the data from those companies that have a similar number of employees as the Company. The Compensation Committee has determined to utilize the services of a consultant for purposes of comparing our compensation program with similarly situated companies in like industries. The recommendations of these consultants will be utilized by the Committee in determining the appropriate compensation packages. While these consultants may make general recommendations about the size and components of compensation, we anticipate our philosophy to continue on the basis of a pay-for-performance philosophy.

Based on management's analyses and recommendations, the Compensation Committee has approved a pay-for-performance compensation philosophy, which is intended to establish base salaries and total executive compensation (taking into consideration the executive's experience and abilities) that are competitive with those companies with a similar number of employees represented in the compensation data we review.

We work within the framework of this pay-for-performance compensation philosophy to determine each component of an executive's initial compensation package based on numerous factors, including:

The individual's particular background, track record and circumstances, including training and prior relevant work experience;

The individual's role with us and the compensation paid to similar persons in the companies represented in the compensation data that we review;

The demand for individuals with the individual's specific expertise and experience;

Performance goals and other expectations for the position; and

Uniqueness of industry skills.

The terms of each executive officer's compensation are derived from employment agreements negotiated between the Company and the executive. Each executive's employment agreement is generally negotiated to cover a one to three-year period, and prescribes the base salary and other annual payments, if any, to the executive. Employment agreements for all executive officers are approved by the Board of Directors and the Compensation Committee. Employment agreements for other executives are approved by the Company's Chief Executive Officer.

2017 Executive Compensation Components

For the fiscal year ended June 30, 2017, the principal components of compensation that our named executive officers were eligible to receive were:

Base salary;

Long Term Equity Incentive Compensation;

Performance-based incentive compensation (discretionary bonus); and

Perquisites and other personal benefits.

The Company's executive compensation program is intended to promote and maintain stability within the executive team. The Company's goal for its executive compensation program is to attract, motivate and retain a talented, entrepreneurial, ethical and creative team of executives who will provide leadership for the Company's success in dynamic and competitive markets.

Base Salary

An executive's base salary is evaluated together with components of the executive's other compensation to ensure that the executive's total compensation is consistent with our overall compensation philosophy. Base salaries are adjusted annually by the Compensation Committee.

The base salaries were established in arms-length negotiations between the executive and the Company, taking into account their extensive experience, knowledge of the industry, track record, and achievements on behalf of the Company. The Company expects each named executive officer to contribute to the Company's overall success as a member of the executive team rather than focus solely on specific objectives within the officer's area of responsibility.

Annual Bonus

Our compensation program includes eligibility for bonuses as rewarded by the Compensation Committee. All executives are eligible for annual performance-based cash bonuses in accordance with Company policies. The compensation committee takes into consideration the executive's performance during the previous year to determine eligibility for discretionary bonuses. Further, the compensation committee will review, if applicable, the performance criteria set forth in an executive's previous year's agreement and will determine if the executive has met such criteria in order to achieve the bonus. The Company's bonus criteria at the executive management level, is typically based on a gross revenue and per share profit targets.

Long-Term Equity Incentive Compensation

We believe that long-term performance is achieved through an ownership culture that encourages long-term participation by our executives in equity-based awards. Our various Employee Stock Option Plans allow us to grant stock options to employees. We currently make initial equity awards of stock options to new executives and certain non-executive employees in connection with their employment with the Company. Annual grants of options, if any, are approved by the Compensation Committee.

Equity Incentives. Executives, certain non-executive employees, and directors who join us may be awarded stock awards and/or stock option grants after they join the Company. These grants have an exercise price equal to the fair market value of our common stock on the grant date. Such awards are intended to provide the executive with incentive to build value in the organization over an extended period of time. The size of the stock option award is also reviewed in light of the executive's track record, base salary, other compensation and other factors to ensure that the executive's total compensation is in line with our overall compensation philosophy. A review of all components of compensation is conducted when determining equity awards to ensure that total compensation conforms to our overall philosophy and objectives.

Equity incentives provided to executives are determined by the Fair Market Value of our common stock on the grant date were provided to the executives as an adjustment of their overall compensation while taking in to account the need to continue to incentivize the executive to build value in the organization. Each executive's stock award was based on an analysis of the Compensation Committee of an appropriate overall cash compensation for each individual taking into account their position and compensation at similarly situated companies. Each executive's stock award was based on a desired overall compensation cash value less the base salary as approved by the Compensation Committee.

Perquisites and Other Personal Benefits

We provide named executive officers with perquisites and other personal benefits that we believe are reasonable and consistent with our overall compensation program to better enable the Company to attract and retain superior employees for key positions. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to NetSol's executive officers.

We maintain benefits and perquisites that are offered to all employees, including health and dental insurance. Benefits and perquisites may vary in different country locations and are consistent with local practices and regulations.

Termination Based Compensation

Upon termination of employment, all executive officers with a written employment agreement are entitled to receive severance payments under their employment agreements. In determining whether to approve, and as part of the process of setting the terms of, such severance arrangements, the Compensation Committee recognizes that executives and officers often face challenges securing new employment following termination. Further, the Committee recognizes that many of the named executives and officers have participated in the Company since its founding and that this participation has not resulted in a return on their investments. Termination and Change in Control Payments considered both the risk and the dedication of these executives' service to the Company.

Our Chief Executive Officer has an employment agreement that provides, if his employment is terminated without cause or if the executive terminates the agreement with Good Reason, he is entitled to (a) all remaining salary to the end of the date of termination, plus salary from the end of the employment term through the end of the fourth anniversary of the date of termination, and (b) the continuation by the Company of medical and dental insurance coverage for him and his family until the end of the employment term and through the end of the fourth anniversary of the date of termination. Provided, however, if such benefits cannot be continued for this extended period, the Executive shall receive cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued. These agreements further provide for vesting of all options and restrictive stock grants, if any.

Our Chief Financial Officer has an employment agreement that provides, if his employment is terminated without cause or if the executive terminates the agreement with Good Reason, he is entitled to (a) all remaining salary to the end of the date of termination, plus salary from the end of the employment term through the end of the first anniversary of the date of termination, and (b) the continuation by the Company of medical and dental insurance coverage for him and his family until the end of the employment term and through the end of the first anniversary from the date of termination. Provided, however, if such benefits cannot be continued for this extended period, the Executive shall receive cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued. These agreements further provide for vesting of all options and restrictive stock grants, if any.

The Secretary of the Company has an employment agreement that provides, if she is terminated without cause or if the executive terminates the agreement with Good Reason, she is entitled to (a) all remaining salary to the end of the date of termination, plus salary from the end of the employment term through the end of the second anniversary of the date of termination, and (b) the continuation by the Company of medical and dental insurance coverage for her and her family until the end of the employment term and through the end of the second anniversary of the date of termination. Provided, however, if such benefits cannot be continued for this extended period, the Executive shall receive cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued. These agreements further provide for vesting of all options and restrictive stock grants, if any.

Tax and Accounting Implications

Deductibility of Executive Compensation

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that we may not deduct compensation of more than $1,000,000 that is paid to certain individuals. We believe that compensation paid under the management incentive plans is generally fully deductible for federal income tax purposes.

Accounting for Stock-Based Compensation

Commencing on July 1, 2006, we began accounting for stock-based payments, including awards under our Employee Stock Option Plans, in accordance with the of Financial Accounting Standards Board's Accounting Standards Codification Topic 718, *Compensation – Stock Compensation*.

Summary Compensation

The following table shows the compensation for the fiscal year ended June 30, 2017, June 30, 2016, and June 30, 2015, earned by our Chairman and Chief Executive Officer, our Chief Financial Officer who is our Principal Financial and Accounting Officer, and others considered to be executive officers of the Company.

Name and Principle Position	Fiscal Year Ended	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($)		All Other Compensation ($)		Total ($)
Najeeb Ghauri	2017	$600,000	$200,000	$500,000	$76,723	(2)	$ 200,000	(3)	$1,576,723
CEO & Chairman	2016	$497,700	$-	$-	$44,937	(2)	$ 65,745	(3)	$608,382
	2015	$497,700	$-	$-	$-	(2)	$ 65,724	(3)	$563,424
Roger K Almond	2017	$189,263	$10,000	$-			$ 16,360	(4)	$215,623
Chief Financial Officer	2016	$181,563	$32,550	$100,400			$ 11,725	(4)	$326,238
	2015	$128,433	$-	$60,000	$-		$ 3,485	(4)	$191,918
Patti L. W. McGlasson	2017	$211,087	$-	$-			$ 9,795	(5)	$220,882
Secretary, General Counsel	2016	$215,049	$-	$100,400			$ 10,393	(5)	$325,842
	2015	$188,180	$-	$-	$-		$ 17,616	(5)	$205,796

(1) The stock was awarded as compensation to the officers. See also Grants of Plan Based Awards.

(2) The life of 150,671 outstanding options, granted in June 2014, was extended for one year.

(3) Consists of $36,000, $36,000 and $36,000 paid for automobile and travel allowance, $16,758, $16,758 and $16,758 on account of life insurance, $16,758, $12,987 and $12,966 paid for medical and dental insurance premiums, $24,000, $nil and $nil paid for housing allowance and $108,514, $nil and $nil paid for temporary relocation by the Company for participation in the health insurance program for the fiscal years ended June 30, 2017, 2016 and 2015, respectively.

(4) Consists of $16,360, $11,725 and $3,485 paid for medical and dental insurance premiums for participation in the health insurance program for the fiscal year ended June 30, 2017, 2016 and 2015, respectively.

(5) Consists of $nil, $nil and $4,855 paid for automobile allowance and $9,795, $10,393 and $12,761 paid for medical and dental insurance premiums for participation in the health insurance program for the fiscal year ended June 30, 2017, 2016 and 2015, respectively.

Grants of Plan-Based Awards

In September 2016, Mr. Najeeb Ghauri was granted 82,644 shares of the Company’s common stock which 50% vested immediately and the remaining 50% will vest annually through June 2017 to June 2021. The shares were approved by the Compensation Committee as an incentive for the named officer.

In September, 2015, Mr. Roger Almond was granted 20,000 shares of the Company's common stock, which vest quarterly over the period of two years. The shares were approved by the Compensation Committee as an incentive for the named officer.

In September, 2015, Ms. McGlasson was granted 20,000 shares of the Company's common stock, which vest quarterly over the period of two years. The shares were approved by the Compensation Committee as an incentive for the named officer.

In March, 2015, Mr. Roger Almond was granted 10,000 shares of the Company's common stock, which vest quarterly. The shares were approved by the Compensation Committee as an incentive for the named officer.

Discussion of Summary Compensation Table

The terms of our executive officers' compensation are derived from our employment agreements with them and the annual performance review by our Compensation Committee. The terms of Mr. Najeeb Ghauri's employment agreement with the Company were the result of negotiations between the Company and the executive and were approved by our Compensation Committee and Board of Directors. The terms of Ms. McGlasson's and Mr. Almond's employment agreement with the Company were the result of negotiations between our Chief Executive Officer and the employees and were approved by our Compensation Committee.

Employment Agreement with Najeeb Ghauri

Effective January 1, 2007, the Company entered into an Employment Agreement with our Chief Executive Officer, Najeeb Ghauri (the "CEO Agreement"). The CEO Agreement was amended effective January 1, 2008, January 1, 2010 July 25, 2013 and again on June 30, 2014. Changes made in the June 30, 2014 amendment are effective July 1, 2014. Pursuant to the CEO Agreement, as amended, between Mr. Ghauri and the Company (the "CEO Agreement"), the Company agreed to employ Mr. Ghauri as its Chief Executive Officer for a five year term. The term of employment automatically renews for 12 additional months unless notice of intent to terminate is received by either party at least 6 months prior to the end of the term. Under the CEO Agreement, Mr. Ghauri is entitled to an annualized base salary of $497,700 and is eligible for annual bonuses at the discretion of the Compensation Committee.

Bonuses may be paid in cash or shares of common stock. Mr. Ghauri earned 12,500 shares of common stock for each quarter of service commencing with the first quarter ended September 30, 2014 through June 30, 2015. Mr. Ghauri was granted 82,644 shares of common stock for services commencing from September 2016 to June 2021, he earned 49,586 shares of common stock for the year ended June 30, 2017. Mr. Ghauri was granted options to purchase 200,000 shares common stock of which 25% of these options vest at the completion of each quarter. Mr. Ghauri is entitled to six weeks of paid vacation per calendar year, receives a car allowance totaling $3,000 per month for the term of the CEO Agreement, and the Company shall pay premiums not to exceed $16,600 (or $4,150 quarterly) for life insurance for the Executive.

The CEO Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the CEO Agreement, if he terminates his employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, he shall be entitled to all remaining salary from the termination date until 48 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and continuation of all health related plan benefits for a period of 48 months. He shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If he is terminated by the Company for Cause (as described below), or at the end of the employment term, he shall not be entitled to further compensation. Under the CEO Agreement, Good Reason includes the assignment of duties inconsistent with his title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 30 miles, if the Company asks him to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the CEO Agreement by the Company. Under the CEO Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform his duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the CEO Agreement by Mr. Ghauri.

The above summary of the CEO Agreement is qualified in its entirety by reference to the full text of the CEO Agreement, a copy of which was filed as an exhibit to the Company's 10-KSB for the fiscal year ended June 30, 2007. The above summary of the First Amendment is qualified in its entirety by reference to the full text of the Amendment, a copy of which was filed as an exhibit to the Company's 10-KSB for the fiscal year ended June 30, 2008. The above summary of the Second Amendment is qualified in its entirety by reference to the full text of the Amendment, a copy of which was filed as an exhibit to the Company's 10-Q for the fiscal year ended December 31, 2009. The above summary of the Third Amendment is qualified in its entirety by reference to the full text of the Amendment, a copy of which was filed as an exhibit to the Company's 8-K filed on July 26, 2013. The above summary of the Fourth Amendment is qualified in its entirety by reference to the full text of the Amendment, a copy of which was filed as an exhibit to the Company's 8-K filed on July 3, 2014.

As of July 1, 2016, the compensation committee approved an adjustment of total cash compensation to $800,000 per annum consisting of salary, allowances, prerequisites and benefits retroactive to July 1, 2016. Also, the committee approved $500,000 worth of shares of the Company's common stock to be granted on an annual basis commencing June 30, 2017 and ending on June 30, 2021; all share grants conditioned upon continued employment of the CEO with the Company on June 30 of each year.

Employment Agreement with Roger K. Almond

Effective March 1, 2015, the Company entered into an Employment Agreement with our Chief Financial Officer, Mr. Roger K. Almond. Pursuant to the Employment Agreement, between Mr. Almond and the Company (the "CFO Agreement"), the Company agreed to employ Mr. Almond as its Chief Financial Officer from the date of the CFO Agreement through February 28, 2017. According to the terms of the CFO Agreement, the term of the agreement automatically extends for an additional one year period unless notice of intent to terminate is received by either party at least 6 months prior to the end of the term. Under the CFO Agreement, Mr. Almond is entitled to an annualized base salary of $199,263 per annum, 10,000 shares of common stock to be granted in 25% tranches after each quarter of service through February 28, 2016, and is eligible for annual bonuses at the discretion of the Chief Executive Officer. In addition, Mr. Almond is entitled to participate in the Company's stock option plans and is entitled to four weeks of paid vacation per calendar year.

The CFO Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the CFO Agreement, if he terminates his employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, he shall be entitled to all remaining salary from the termination date until 12 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and continuation of all health related plan benefits for a period of 12 months. He shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If he is terminated by the Company for Cause (as described below), or at the end of the employment term, he shall not be entitled to further compensation. Under the CFO Agreement, Good Reason includes the assignment of duties inconsistent with his title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 60 miles, if the Company asks him to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the CFO Agreement by the Company. Under the CFO Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform his duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the CFO Agreement by Mr. Almond.

The above summary of the CFO Agreement is qualified in its entirety by reference to the full text of the CFO Agreement, a copy of which was filed as an exhibit to the Company's 8-K filed on March 4, 2015.

Employment Agreement with Patti L. W. McGlasson

Effective May 1, 2006, the Company entered into an Employment Agreement with our Secretary, General Counsel and Sr. Vice President, Legal and Corporate Affairs, Ms. Patti L. W. McGlasson. Pursuant to the Employment Agreement and its related amendments, between Ms. McGlasson and the Company (the "General Counsel Agreement"), the Company agreed to employ Ms. McGlasson as its Secretary and General Counsel from the date of the General Counsel Agreement through June 30, 2017. According to the terms of the General Counsel Agreement, the term of the agreement automatically extends for an additional one-year period unless notice of intent to terminate is received by either party at least 6 months prior to the end of the term. The General Counsel Agreement was amended on July 25, 2013 and again on June 30, 2014 (the General Counsel Agreement and all amendments referred to as the "GC Agreement"). Changes made in the June 30, 2014 amendment are effective July 1, 2014. Under the GC Agreement, Ms. McGlasson is entitled to an annualized base salary of $211,087 per annum, 10,000 shares of common stock to be granted in 25% tranches after each quarter of service through June 30, 2015, and is eligible for annual bonuses at the discretion of the Chief Executive Officer. In addition, Ms. McGlasson is entitled to participate in the Company's stock option plans and, is entitled to six weeks of paid vacation per calendar year.

The General Counsel Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the General Counsel Agreement, if she terminates her employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, she shall be entitled to all remaining salary from the termination date until 24 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and continuation of all health related plan benefits for a period of 24 months. She shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If she is terminated by the Company for Cause (as described below), or at the end of the employment term, she shall not be entitled to further compensation. Under the General Counsel Agreement, Good Reason includes the assignment of duties inconsistent with her title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 60 miles, if the Company asks her to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the General Counsel Agreement by the Company. Under the General Counsel Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform her duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the General Counsel Agreement by Ms. McGlasson.

The above summary of the General Counsel Agreement is qualified in its entirety by reference to the full text of the General Counsel Agreement, a copy of which was filed as an exhibit to the Company's 10-KSB for the fiscal year ended June 30, 2006 on September 27, 2006. The above summary is also qualified in its entirety by reference to the full text of the Amendment to the General Counsel Agreement, a copy of which was filed as an exhibit to the Company's 10-Q for the quarter ended March 31, 2010. The above summary is also qualified in its entirety by reference to the full text of the Second Amendment to the General Counsel Agreement, a copy of which was filed as an exhibit to the Company's 8-K filed on July 26, 2013. The above summary is also qualified in its entirety by reference to the full text of the Third Amendment to the General Counsel Agreement, a copy of which was filed as an exhibit to the Company's 8-K filed on July 3, 2014.

Outstanding Equity Awards at Fiscal Year-End

The following table shows grants of stock options and grants of unvested stock awards outstanding on June 30, 2017, the last day of our fiscal year, to each of the individuals named in the Summary Compensation Table.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS (#) EXERCISABLE	NUMBER OF SECURITIES UNDERLYING OPTIONS (#) UNEXERCISABLE	OPTION EXERCISE PRICE ($)	OPTION EXPIRATION DATE
Najeeb Ghauri	150,671		3.88	6/30/18
	30,000		6.50	2/12/19
Roger K Almond	-		-	
	-		-	
Patti L. W. McGlasson	1,000		16.00	7/23/17

Pension Benefits

We do not have any qualified or non-qualified defined benefit plans.

Potential Payments upon Termination or Change of Control

Generally, regardless of the manner in which a named executive officer’s employment terminates, he is entitled to receive amounts earned during his term of employment. Such amounts include the portion of the executive’s base salary that has accrued prior to any termination and not yet been paid and unused vacation pay.

In addition, we are required to make the additional payments and/or provide additional benefits to the individuals named in the Summary Compensation Table in the event of a termination of employment or a change of control, as set forth below.

Change-in-Control Payments

Najeeb Ghauri, Chairman and Chief Executive Officer

In the event that Mr. Ghauri is terminated as a result of a change in control (defined below), he is entitled to all payments due in the event of a termination for Cause or Good Reason and: (a) a onetime payment equal to the product of 2.99 and his salary during the preceding 12 months; (b) a one-time payment equal to the higher of (i) Executive's bonus for the previous year and (ii) one percent of the Company's consolidated gross revenues for the previous twelve (12) months; and at the election of the Executive, (c) a one-time cash payment equal to the cash value of all shares eligible for exercise upon the exercise of Executive's Options then currently outstanding and exercisable as if they had been exercised in full (the "Change of Control Termination Payment"). In the event Executive elects to receive the cash value of the shares underlying Executive's options, he shall so notify the Company of his intent.

The following table summarizes the potential payments to Mr. Ghauri assuming his employment with us was terminated or a change of control occurred on June 30, 2017, the last day of our most recently completed fiscal year.

BENEFITS AND PAYMENTS	TERMINATION AFTER CHANGE OF CONTROL	TERMINATION UPON DEATH OR DISABILITY	TERMINATION BY US WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON
Base Salary Continuance	$ 2,400,000	$ 100,000	$ 2,400,000
Health Related Benefits	58,752		