

NETSOL TECHNOLOGIES INC
Form 10QSB
May 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2008

For the transition period from _____ to _____

Commission file number: 0-22773

NETSOL TECHNOLOGIES, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA
(State or other Jurisdiction of
Incorporation or Organization)

95-4627685
(I.R.S. Employer NO.)

23901 Calabasas Road, Suite 2072, Calabasas, CA 91302
(Address of principal executive offices) (Zip Code)

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

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

Yes No

The issuer had 25,502,332 shares of its \$.001 par value Common Stock and 1,920 shares of Series A 7% Cumulative Convertible Preferred Stock issued and outstanding as of May 12, 2008.

Transitional Small Business Disclosure Format (check one)

Yes No

NETSOL TECHNOLOGIES, INC.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET — MARCH 31, 2008
(UNAUDITED)

ASSETS

Current assets:

| | | |
|--|--------------|-------------------|
| Cash and cash equivalents | \$ 4,848,513 | |
| Accounts receivable, net of allowance for doubtful accounts of \$168,443 | 10,227,903 | |
| Revenues in excess of billings | 12,006,231 | |
| Other current assets | 2,933,047 | |
| Total current assets | | 30,015,694 |

Property and equipment, net of accumulated depreciation 8,153,405

Other assets, long-term 800,435

Intangibles:

| | | |
|---|-----------|-------------------|
| Product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, net | 9,137,381 | |
| Customer lists, net | 1,906,422 | |
| Goodwill | 7,786,032 | |
| Total intangibles | | 18,829,835 |

Total assets \$ 57,799,369

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|---|--------------|------------------|
| Accounts payable and accrued expenses | \$ 3,323,046 | |
| Current portion of loans and obligations under capitalized leases | 605,551 | |
| Other payables - acquisitions | 83,399 | |
| Unearned revenues | 3,616,555 | |
| Due to officers | 184,173 | |
| Dividend to preferred stockholders payable | 33,508 | |
| Loans payable, bank | 1,977,689 | |
| Total current liabilities | | 9,823,921 |

Obligations under capitalized leases, less current maturities 270,927

Long term loans; less current maturities 552,166

Total liabilities 10,647,014

Minority interest 5,834,732

Commitments and contingencies**Stockholders' equity:**

| | | |
|--|--------------|--|
| Preferred stock, 5,000,000 shares authorized; 1,920 issued and outstanding | 1,920,000 | |
| Common stock, \$.001 par value; 45,000,000 shares authorized; 25,247,568 issued and outstanding | 25,248 | |
| Additional paid-in-capital | 75,299,379 | |
| Treasury stock | (35,681) | |
| Accumulated deficit | (33,477,767) | |
| Stock subscription receivable | (600,907) | |
| Common stock to be issued | 64,612 | |
| Other comprehensive loss | (1,877,261) | |

Total stockholders' equity 41,317,623

Total liabilities and stockholders' equity \$ 57,799,369

See accompanying notes to these unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | For the Three Months Ended March 31, | | For the Nine Months Ended March 31, | |
|---|---|------------------|--|--------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net Revenues: | | | | |
| Licence fees | \$ 2,998,867 | \$ 2,554,289 | \$ 7,769,226 | \$ 6,851,496 |
| Maintenance fees | 1,482,654 | 1,335,893 | 4,556,450 | 3,990,096 |
| Services | 4,585,292 | 3,725,784 | 13,800,844 | 9,864,055 |
| Total revenues | 9,066,813 | 7,615,966 | 26,126,520 | 20,705,647 |
| Cost of revenues | | | | |
| Salaries and consultants | 2,620,722 | 2,234,809 | 7,342,743 | 6,608,606 |
| Travel | 394,841 | 447,288 | 972,998 | 1,195,315 |
| Repairs and maintenance | 99,262 | 133,961 | 332,448 | 313,514 |
| Insurance | 30,005 | 51,294 | 153,760 | 153,595 |
| Depreciation and amortization | 316,652 | 279,405 | 847,288 | 693,703 |
| Other | 522,013 | 790,927 | 1,341,513 | 1,479,478 |
| Total cost of sales | 3,983,495 | 3,937,684 | 10,990,750 | 10,444,211 |
| Gross profit | 5,083,318 | 3,678,282 | 15,135,770 | 10,261,436 |
| Operating expenses: | | | | |
| Selling and marketing | 898,686 | 825,586 | 2,817,908 | 2,105,920 |
| Depreciation and amortization | 477,630 | 483,801 | 1,422,181 | 1,389,704 |
| Bad debt expense | - | (231) | 3,277 | 117,267 |
| Salaries and wages | 1,034,784 | 915,481 | 2,758,434 | 2,914,707 |
| Professional services, including non-cash compensation | 114,436 | 254,359 | 413,437 | 774,203 |
| General and administrative | 792,499 | 687,881 | 2,287,693 | 2,202,182 |
| Total operating expenses | 3,318,035 | 3,166,877 | 9,702,930 | 9,503,983 |
| Income from operations | 1,765,283 | 511,405 | 5,432,840 | 757,453 |
| Other income and (expenses): | | | | |
| Gain (loss) on sale of assets | (891) | (6,729) | (33,044) | (19,067) |
| Beneficial conversion feature | - | - | - | (2,208,334) |
| Amortization of debt discount and capitalized cost of debt | - | - | - | (2,803,691) |
| Liquidation damages | - | (47,057) | - | (180,890) |
| Fair market value of warrants issued | - | (33,987) | - | (33,987) |
| Interest expense | (121,651) | (83,819) | (544,597) | (543,342) |
| Interest income | 84,363 | 46,867 | 159,801 | 265,916 |
| Gain on sale of subsidiary shares | 1,240,808 | - | 1,240,808 | - |
| Other income and (expenses) | 447,889 | 10,081 | 709,113 | 88,935 |
| Total other income (expenses) | 1,650,518 | (114,644) | 1,532,081 | (5,434,460) |
| Net income (loss) before minority interest in subsidiary | 3,415,801 | 396,761 | 6,964,921 | (4,677,007) |
| Minority interest in subsidiary | (1,098,703) | (568,237) | (1,756,509) | (1,374,081) |
| Income taxes | (15,314) | (57,655) | (46,272) | (126,620) |
| Net income (loss) | 2,301,784 | (229,131) | 5,162,140 | (6,177,708) |
| | (33,508) | (94,088) | (145,033) | (159,686) |

| | | | | |
|--|--------------|--------------|--------------|----------------|
| Dividend required for preferred stockholders | | | | |
| Subsidiary dividend (minority holders portion) | - | - | (817,173) | - |
| Bonus stock distribution (minority holders portion) | - | - | (545,359) | - |
| Net income (loss) applicable to common shareholders | 2,268,276 | (323,219) | 3,654,575 | (6,337,394) |
| Other comprehensive gain: | | | | |
| Translation adjustment | (910,838) | 81,564 | (1,401,831) | 203,343 |
| Comprehensive income (loss) | \$ 1,357,438 | \$ (241,655) | \$ 2,252,744 | \$ (6,134,051) |
| Net income (loss) per share: | | | | |
| Basic | \$ 0.09 | \$ (0.02) | \$ 0.21 | \$ (0.36) |
| Diluted | \$ 0.09 | \$ (0.01) | \$ 0.21 | \$ (0.35) |
| Weighted average number of shares outstanding | | | | |
| Basic | 25,205,995 | 18,311,290 | 23,686,204 | 17,680,115 |
| Diluted | 25,665,924 | 18,311,290 | 24,146,133 | 17,680,115 |

See accompanying notes to these unaudited consolidated financial statements.

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

| | For the Nine Months Ended March 31, | |
|--|--|---------------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income (loss) applicable to common shareholders | \$ 5,162,140 | \$ (6,177,708) |
| Adjustments to reconcile net income (loss) applicable to common shareholders to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,269,469 | 2,083,407 |
| Bad debt expense | 3,277 | 117,267 |
| Loss on sale of assets | 33,044 | 19,067 |
| Gain on sale of subsidiary shares in Pakistan | (1,240,808) | - |
| Minority interest in subsidiary | 1,756,509 | 1,374,081 |
| Stock issued for services | 48,163 | 88,099 |
| Stock issued for convertible note payable interest | - | 311,868 |
| Fair market value of warrants and stock options granted | 24,320 | 33,987 |
| Beneficial conversion feature | - | 2,208,334 |
| Amortization of debt discount and capitalized cost of debt | - | 2,803,691 |
| Changes in operating assets and liabilities: | | |
| Decrease/(increase) in accounts receivable | (2,087,736) | (1,913,135) |
| Increase in other current assets | (4,885,181) | (2,793,410) |
| (Decrease)/increase in accounts payable and accrued expenses | (510,968) | 1,716,251 |
| Net cash provided by (used in) operating activities | 572,229 | (128,201) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,985,651) | (1,282,427) |
| Sales of property and equipment | 120,436 | 208,419 |
| Net proceeds of certificates of deposit | - | 1,737,481 |
| Payment for acquisition | (879,007) | (4,027,753) |
| Increase in intangible assets | (2,219,673) | (2,001,502) |
| Net cash used in investing activities | (4,963,895) | (5,365,782) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock | 1,500,000 | 30,093 |
| Proceeds from the exercise of stock options | 2,800,917 | 704,250 |
| Proceeds from sale of subsidiary stock | 1,765,615 | - |
| Finance costs incurred for sale of common stock | (10,000) | - |
| Purchase of treasury stock | (25,486) | - |
| Reduction in restricted cash | - | 4,533,555 |
| Proceeds from loans from officers | - | 165,000 |
| Proceeds from bank loans | 3,862,759 | - |
| Payments on bank loans | (1,245,846) | - |
| Capital lease obligations & loans (net) | (3,462,334) | 874,128 |
| Net cash provided by financing activities | 5,185,625 | 6,307,026 |
| Effect of exchange rate changes in cash | 44,390 | 76,159 |
| Net increase in cash and cash equivalents | 838,349 | 889,202 |
| Cash and cash equivalents, beginning of period | 4,010,164 | 2,493,768 |
| Cash and cash equivalents, end of period | \$ 4,848,513 | \$ 3,382,970 |

See accompanying notes to these unaudited consolidated financial statements.

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

| | For the Nine Months Ended March 31, | |
|--|--|--------------|
| | 2008 | 2007 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash paid during the period for: | | |
| Interest | \$ 378,802 | \$ 154,478 |
| Taxes | \$ 79,070 | \$ 20,148 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Common stock issued for intangible assets | \$ - | \$ 269,128 |
| Common stock issued for acquisition of 100% of subsidiary | \$ 76,750 | \$ 1,584,009 |
| Common stock issued for payment of note payable and related interest | \$ - | \$ 339,368 |
| Common stock issued for dividend payable | \$ 189,165 | \$ - |
| Bonus stock distribution issued by subsidiary to minority holders | \$ 545,359 | \$ - |
| Stock issued for the conversion of Preferred Stock | \$ 2,210,000 | \$ 475,000 |
| Preferred stock issued for conversion of convertible note payable | \$ - | \$ 5,500,000 |

See accompanying notes to these unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

The consolidated condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended June 30, 2007. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, NetSol Technologies North America, Inc. ("NTNA"), NetSol Technologies Limited ("NetSol UK"), NetSol-Abraxas Australia Pty Ltd. ("Abraxas"), NetSol Technologies Europe Limited ("NTE"), and its majority-owned subsidiaries, NetSol Technologies, Ltd. ("NetSol PK"), NetSol Connect (Pvt), Ltd. ("Connect"), TIG-NetSol (Pvt) Limited ("NetSol-TIG"), and NetSol Omni (Private) Limited ("Omni"). All material inter-company accounts have been eliminated in the consolidation.

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

NOTE 2 - USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS:

In September 2006, FASB issued SFAS 157 "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The management is currently evaluating the effect of this pronouncement on the consolidated financial

statements.

In September 2006, FASB issued SFAS 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R).” This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

1. A brief description of the provisions of this Statement
2. The date that adoption is required
3. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

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The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The adoption of this statement will not have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115." The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Management is currently evaluating the effect of this pronouncement on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements". This Statement amends ARB 51 to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for the Company's fiscal year beginning October 1, 2009. Management is currently evaluating the effect of this pronouncement on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This Statement replaces SFAS No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and, c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after Company's fiscal year beginning October 1, 2009. While the Company has not yet evaluated this statement for the impact, if any, that SFAS No. 141(R) will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after September 30, 2009.

In March, 2008, the FASB issued FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The new standard also improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. FASB Statement No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important. Based on current conditions, the Company does not expect the adoption of SFAS 161 to have a significant impact on its results of operations or financial position.

NOTE 4 - EARNINGS/(LOSS) PER SHARE:

"Earnings per share" is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings per share". Basic net income per share is based upon the weighted average number of common

shares outstanding. Diluted net income per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

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The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

For the nine months ended March 31, 2008

| | Net Income | Shares | Per Share |
|---|--------------|------------|-----------|
| Basic earnings per share: | \$ 5,017,107 | 23,686,204 | \$ 0.21 |
| Dividend to preferred shareholders | 145,033 | | |
| Net income available to common shareholders | | | |
| Effect of dilutive securities | | | |
| Stock options | | 221,129 | |
| Warrants | | 180,920 | |
| Convertible Preferred Shares | | 57,880 | |
| Diluted earnings per share | \$ 5,162,140 | 24,146,133 | \$ 0.21 |

For the nine months ended March 31, 2007

| | Net Income | Shares | Per Share |
|---------------------------------|----------------|------------|-----------|
| Basic earnings per share: | | | |
| Net loss | \$ (6,177,708) | 17,680,115 | \$ (0.35) |
| Effect of dilutive securities * | | | |
| Stock options | | - | |
| Warrants | | - | |
| Diluted earnings per share | \$ (6,177,708) | 17,680,115 | \$ (0.35) |

* As there is a loss, these securities are anti-dilutive. The basic and diluted earnings per share is the same for the nine months ended March 31, 2007

NOTE 5 - FOREIGN CURRENCY:

The accounts of NetSol UK and NTE use the British Pound; NetSol PK, Connect, Omni, and NetSol-TiG use Pakistan Rupees; and Abraxas uses the Australian dollar as the functional currencies. NetSol Technologies, Inc., and subsidiary, NTNA, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Accumulated translation losses of \$1,877,261 at March 31, 2008 are classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet. During the nine months ended March 31, 2008 and 2007, comprehensive gain (loss) in the consolidated statements of operations included translation loss of \$1,401,831 and gain of \$203,343, respectively.

NOTE 6 - OTHER CURRENT ASSETS

Other current assets consist of the following at March 31, 2008:

| | |
|--------------------|--------------|
| Prepaid Expenses | \$ 1,146,229 |
| Advance Income Tax | 331,509 |
| Employee Advances | 198,025 |
| | 243,952 |

| | |
|--------------|--------------|
| Security | |
| Deposits | |
| Advance Rent | 223,219 |
| Tender Money | |
| Receivable | 336,605 |
| Other | |
| Receivables | 433,443 |
| Other Assets | 20,065 |
| Total | \$ 2,933,047 |

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NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following at March 31, 2008:

| | |
|--------------------------------|--------------|
| Office furniture and equipment | \$ 1,226,920 |
| Computer equipment | 7,567,156 |
| Assets under capital leases | 1,342,001 |
| Building | 3,154,201 |
| Construction in process | 423,201 |
| Land | 1,005,567 |
| Autos | 251,656 |
| Improvements | 458,805 |
| Subtotal | 15,429,507 |
| Accumulated depreciation | (7,276,102) |
| | \$ 8,153,405 |

For the nine months ended March 31, 2008 and 2007, fixed asset depreciation expense totaled \$1,034,720 and \$869,240, respectively. Of these amounts, \$661,114 and \$528,111, respectively, are reflected as part of cost of goods sold.

NOTE 8 - INTANGIBLE ASSETS:

Intangible assets consist of product licenses, renewals, enhancements, copyrights, trademarks, trade names, customer lists and goodwill. The Company evaluates intangible assets, goodwill and other long-lived assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets and goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. Potential impairment of goodwill has been evaluated in accordance with SFAS No. 142.

As part of intangible assets, the Company capitalizes certain computer software development costs in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense 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 net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, the Company writes off the amount by which the unamortized software development costs exceed net realizable 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 over three years, whichever method results in a higher level of amortization.

Product licenses and customer lists were comprised of the following as of March 31, 2008:

| | Product Licenses | Customer Lists | Total |
|-----------------------------------|------------------|----------------|---------------|
| Intangible assets - June 30, 2007 | \$ 14,511,208 | \$ 5,451,094 | \$ 19,962,302 |
| Additions | 2,176,751 | - | 2,176,751 |
| Effect of translation adjustment | (110,168) | - | (110,168) |
| Accumulated amortization | (7,440,410) | (3,544,672) | (10,985,082) |
| Net balance - March 31, 2008 | \$ 9,137,381 | \$ 1,906,422 | \$ 11,043,803 |
| Amortization expense: | | | |
| Nine months ended March 31, 2008 | \$ 713,766 | \$ 520,983 | \$ 1,234,749 |
| Nine months ended March 31, 2007 | \$ 693,184 | \$ 520,983 | \$ 1,214,167 |

At March 31, 2008 and 2007, product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, included unamortized software development and enhancement costs of \$7,674,491 and \$4,525,955, respectively, as the development and enhancement is yet to be completed. Software development amortization expense was \$186,174 and \$165,592 for the nine months ended March 31, 2008 and 2007, respectively and is shown in "Cost of Goods Sold" in these consolidated financial statements.

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

| Asset | FISCAL YEAR ENDING | | | | | TOTAL |
|------------------|--------------------|--------------|------------|------------|---------|--------------|
| | 3/31/09 | 3/31/10 | 3/31/11 | 3/31/12 | 3/31/13 | |
| Product Licences | \$ 1,236,736 | \$ 1,070,405 | \$ 501,325 | \$ 27,893 | \$ - | \$ 2,836,359 |
| Customer Lists | 694,644 | 672,696 | 431,268 | 107,815 | - | 1,906,423 |
| | \$ 1,931,380 | \$ 1,743,101 | \$ 932,593 | \$ 135,708 | \$ - | \$ 4,742,782 |

There were no impairments of the goodwill asset during the nine months ended March 31, 2008 and 2007.

NOTE 9 - OTHER ASSETS - LONG TERM

NetSol PK has outgrown its current facility and has looked to other sources to house its growing numbers of employees. During the year ended June 30, 2007, the owner of the adjacent land agreed to build an office to the Company's specifications and the Company agreed to help pay for the development of the land in exchange for discounted rent for the next three years. As of March 31, 2008, the Company has paid a total of \$493,095 in connection with this agreement. Of this amount, \$223,219 has been classified as current, representing one-year of rental payments, and \$128,760 shown as long-term assets. During the nine months ended March 31, 2008, \$133,257 was expensed.

In addition, NetSol PK has begun work on building a new building behind the current one. The enhancement of infra-structure is necessary to meet the company's growth in local and international business. The balance for advance for Capital-Work-In-Progress was \$671,675.

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at March 31, 2008:

| | |
|-----------------------|--------------|
| Accounts Payable | \$ 966,986 |
| Accrued Liabilities | 2,014,565 |
| Accrued Payroll | 2,102 |
| Accrued Payroll Taxes | 51,143 |
| Interest Payable | 156,257 |
| Deferred Revenues | 29,962 |
| Taxes Payable | 102,031 |
| Total | \$ 3,323,046 |

NOTE 11 - DEBTS**A) LOANS AND LEASES PAYABLE**

Notes payable as of March 31, 2008 consist of the following:

| Name | Balance at 3/31/08 | Current Maturities | Long-Term Maturities |
|----------------------------------|-----------------------|-----------------------|-------------------------|
| D&O Insurance | \$ 72,031 | \$ 72,031 | \$ - |
| Professional Liability Insurance | 2,310 | 2,310 | - |
| HSBC Loan | 820,746 | 268,580 | 552,166 |
| Subsidiary Capital Leases | 533,557 | 262,630 | 270,927 |
| | \$ 1,428,644 | \$ 605,551 | \$ 823,093 |

In February 2005, the Company received a loan from Noon Group in the amount of \$500,000. The note carried an interest rate of 9.75% per annum and was due in one year. The maturity date of the loan may be extended at the option of the holder for an additional year. In March, 2006, the note was extended for another year. During the fiscal year ended June 30, 2007, \$48,750 of accrued interest was recorded for this loan. In April 2006, \$51,250 of accrued interest was paid. Total unpaid accrued interest at June 30, 2006 was \$65,044. In July 2007, the full principal and interest were paid.

On July 4, 2007, the Company entered into a debt agreement with AMZ, a brokerage firm, in Lahore, Pakistan for a total of \$2,457,642. AMZ brokered the loan with 2 banks in Pakistan, Bank Islami Pakistan Ltd, and Security Leasing Corporation Ltd. The loan called for 30% of the value of the loan to be collateralized by shares the Company owns in its Pakistan subsidiary, NetSol PK, plus an additional 10% of the total share pledged to cover any extra margin due to the change in value of the pledged shares. Finance costs associated with this debt totaled \$39,445 and the Company received a net balance of \$2,418,197. The loan had a maturity of three months and an interest rate 18.35%, consisting of the Karachi Interbank Offer Rate ("KIBOR" of 9.09%, a base rate of 4.26%, and a mark-up rate of 5%. On October 4, 2007, the loan matured and was rolled over for an additional three months. The new interest rate was 14.75%. Upon maturity on January 4, 2008, payment of the note and accrued interest was extended for six weeks. On February 16, 2008, the full balance of the loan and accrued interest of \$256,608 was paid. All pledged shares were returned to the Company.

In August 2007, the Company's subsidiary, NetSol UK, entered into an agreement with HSBC Bank whereby the line of credit outstanding of £500,000 or approximately \$1,023,850 was converted into a loan payable with a maturity of three years. The interest rate is 7.5% with monthly payments of £15,558 or approximately \$31,858. The Parent has

guaranteed payment of the loan in the event the subsidiary should default on it. During the nine months ended March 31, 2008, £88,619 or approximately \$176,803 was paid on the principal of this note and £20,291 or approximately \$40,886 was paid in interest. The loan outstanding as of March 31, 2008 was £411,381 or \$820,746; of this amount \$268,580 is classified as current maturities and \$552,166 as long-term debt.

In January 2008, the Company renewed its directors' and officers' liability insurance for which the annual premium is \$102,585. This is a reduction from \$163,620 in the prior year. In January 2008, the Company arranged financing with AFCO Credit Corporation with a down payment of \$10,584 with the balance to be paid in nine monthly installments of \$10,584 each. The balance owing as of March 31, 2008 was \$72,031.

CAPITAL LEASE OBLIGATIONS

The Company leases various fixed assets under capital lease arrangements expiring in various years through 2013. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lesser of their related lease terms or their estimated useful lives and are secured by the assets themselves. Depreciation of assets under capital leases is included in depreciation expense for the nine months ended March 31, 2008 and 2007.

Following is the aggregate minimum future lease payments under capital leases as of March 31, 2008:

| | |
|---|------------|
| Minimum Lease Payments | |
| Due FYE 3/31/09 | \$ 242,496 |
| Due FYE 3/31/10 | 243,499 |
| Due FYE 3/31/11 | 119,081 |
| Due FYE 3/31/12 | 10,229 |
| Due FYE 3/31/13 | 10,315 |
| Total Minimum Lease Payments | 625,620 |
| Interest Expense relating to future periods | (92,063) |
| Present Value of minimum lease payments | 533,557 |
| Less: Current portion | (262,630) |
| Non-Current portion | \$ 270,927 |

Following is a summary of fixed assets held under capital leases as of March 31, 2008:

| | |
|---------------------------------|------------|
| Computer Equipment and Software | \$ 760,419 |
| Furniture and Fixtures | 49,788 |
| Vehicles | 429,036 |
| Building Equipment | 102,758 |
| Total | 1,342,001 |
| Less: Accumulated Depreciation | (632,919) |
| Net | \$ 709,082 |

B) BANK LOAN

The Company's Pakistan subsidiary, NetSol PK, has one loan with a bank, secured by the Company's assets. The note consists of the following as of March 31, 2008:

| TYPE OF LOAN | MATURITY DATE | INTEREST RATE | BALANCE USD |
|---------------------|-------------------|------------------|----------------|
| Export Refinance | Every 6 months | 7.50% | \$ 1,977,689 |
| Total | | | \$ 1,977,689 |

C) OTHER PAYABLE - ACQUISITION

McCue Systems (now NetSol Technologies North America, Inc.)

As of March 31, 2008, Other Payable - Acquisition consists of total payments of \$83,399 due to the former shareholders of McCue Systems, Inc.

On June 30, 2006, the acquisition with McCue Systems, Inc. ("McCue") closed (see Note 17). As a result, the first installment consisting of \$2,117,864 cash and 958,213 shares of the Company's restricted common stock was recorded. The cash portion was shown as "Other Payable - Acquisition" and the stock was shown as "Shares to Be Issued" as of June 30, 2006. During the fiscal year ended June 30, 2007, \$2,059,413 of the cash portion was paid to the former McCue shareholders and in July 2006 the stock was issued. In June 2007, the second installment on the acquisition consisting of \$903,955 in cash and 408,988 shares of the Company's restricted common stock became due and was recorded. The cash portion was shown as "Other Payable - Acquisition" and the stock portion was issued on June 27, 2007. The balance at June 30, 2007 was \$962,406. During the three months ended September 30, 2007, \$879,007 of the cash was paid, leaving a balance of \$83,399 to be paid which represents the few remaining McCue shareholders that have not been located as of the date of this report.

DUE TO OFFICERS

The officers of the Company, from time to time, loan funds to the Company.

On September 1, 2006, an officer of the Company loaned \$165,000 to the Company for its immediate short-term cash needs in the corporate office. The loan had a maturity date of three months and is interest free and had been automatically extended. The terms of the loan were approved by the Company's board of directors. The balance of this loan was repaid in July 2007.

In 2006, an officer of the Company loaned \$150,000 to the Company for its immediate short-term cash needs in the corporate office.

In addition, the officers of the Company have advanced \$34,173 as working capital. The balance due to officers as of March 31, 2008 was \$184,173.

NOTE 12 - DIVIDEND PAYABLE

PREFERRED SHAREHOLDERS

The Company has issued Series A 7% Cumulative Convertible Preferred Stock under which dividends are payable (see Note 13). The dividend is to be paid quarterly, either in cash or stock at the Company's election. The dividend for the three months ended March 31, 2008 totaled \$33,508 and is reflected as a payable in these consolidated financial statements. This amount was paid with the issuance of 18,764 shares of the Company's common stock in April 2008.

SUBSIDIARY DIVIDEND

On September 26, 2007, the Company's joint-venture subsidiary, NetSol-TiG declared a cash dividend of 100,000,000 Pakistan Rupees ("pkr") or approximately \$1,651,522. Of this amount, the Company was due 50,520,000 pkr or approximately \$834,349. This amount was paid during the quarter ended December 31, 2007. The amount attributable to the minority holders is approximately \$817,173 and is reflected on these unaudited consolidated financial statements. As of December 31, 2007, the dividend had been paid to the Company and to the minority holders.

NOTE 13 - STOCKHOLDERS' EQUITY:

EQUITY TRANSACTIONS

PREFERRED STOCK

On October 30, 2006, the convertible notes payable (see note 16) were converted into 5,500 shares of Series A 7% Cumulative Convertible Preferred Stock. The preferred shares are valued at \$1,000 per share or \$5,500,000. The preferred shares are convertible into common stock at a rate of \$1.65 per common share. The total shares of common stock that can be issued under these Series A Preferred Stock is 3,333,333. On January 19, 2007, the Form S-3 statement to register the underlying common stock and related dividends became effective. As of June 30, 2007, the balance of the preferred shares was 4,130 shares. During the nine months ended March 31, 2008, 2,210 shares of preferred stock were converted into 1,339,392 shares of common stock valued at \$2,210,000.

During the nine months ended March 31, 2008, the Company issued 95,824 shares of the Company's common stock valued at \$189,165 as payment of the dividends due.

The Series A Convertible Preferred Stock carries certain liquidation and preferential rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, before any distribution of assets of the Corporation can be made to or set apart for the holders of Common Stock, the holders of Convertible Preferred Stock shall be entitled to receive payment out of such assets of the Corporation in an amount equal to \$1,000 per share of Convertible Preferred Stock then outstanding, plus any accumulated and unpaid dividends thereon (whether or not earned or declared) on the Convertible Preferred Stock. In addition, the Convertible Preferred Stock ranks senior to all classes and series of Common Stock and existing preferred stock and to each other class or series of preferred stock established hereafter by the Board of Directors of the Corporation, with respect to dividend rights, redemption rights, rights on liquidation, winding-up and dissolution and all other rights in any manner, whether voluntary or involuntary.

Business Combinations

McCue Systems, Inc. (now NetSol Technologies North America, Inc.)

In June 2006, the Company completed the acquisition of McCue Systems, Inc. A total of 37,731 shares valued at \$64,612 are shown in "Shares to Be Issued" in these consolidated financial statements representing McCue Systems shareholders that have not been located as of this date.

NetSol Omni ("Omni")

In December 2007, the Company entered into an agreement with the minority shareholders of Omni, whereby the Company purchased the remaining 49.9% of Omni for 25,000 shares of the Company's common stock valued at \$76,750.

Private Placements

In June 2007, the Company sold 757,576 shares of the Company's common stock to two institutional investors for \$1,250,000. The Company received \$1,000,000 of this by June 30, 2007 and the remaining \$250,000 cash due was received on July 2, 2007. The shares were issued in July 2007. This purchase agreement contained a "green shoe" clause whereby the investors had the option to purchase within six months the same number of shares at the same price and receive the same number of warrants. In October 2007, the investors exercised the "green shoe" clause and the Company sold them 757,576 shares of the Company's common stock valued at \$1,250,000. In addition, as part of the agreement, the investors were granted 378,788 warrants with an exercise price of \$1.65 and expires in five years.

Services

In October 2006, the Company entered into an agreement with a consultant whereby the Company agreed to issue a total of 40,000 of the Company's restricted stock, to be paid at the end of each quarter of service. As of June 30, 2007, the Company had recorded as "Stock to Be Issued" 10,000 shares valued at \$15,000 or \$1.50 per share under this agreement. In October 2007, these shares were issued. As the consultant hasn't provided the service contracted on a timely basis, the shares are only due to the consultant upon performance of the service, therefore, during the quarter ended December 31, 2007, an additional 10,000 shares valued at \$15,000 or \$1.50 per share have been recorded as "Stock to be Issued". These shares were issued in March 2008.

In October 2006, the Company entered into an agreement with an employee whereby the Company agreed to issue a total of 35,000 shares of the Company's restricted common stock valued at \$132,650; vesting over one year on a quarterly basis. In January 2008, the first quarter of shares were vested and 8,750 shares valued at \$33,162 were

issued to the employee.

Options and Warrants Exercised

During the nine months ended March 31, 2008, the Company issued 599,538 shares of its common stock for the exercise of options valued at \$1,023,099.

During the nine months ended March 31, 2008, the Company issued 1,087,359 shares of its common stock for the exercise of warrants valued at \$1,754,547.

STOCK SUBSCRIPTION RECEIVABLE

Stock subscription receivable represents stock options exercised and issued that the Company has not yet received the payment from the purchaser as they were in processing when the quarter ended.

During the nine months ended March 31, 2008, \$542,000 was collected and new receivables of \$211,500 were issued. In addition, the Company wrote-off \$70,000 of receivables as uncollectible from employees who have since left the Company. The balance at March 31, 2008 was \$600,907.

COMMON STOCK PURCHASE WARRANTS AND OPTIONS

From time to time, the Company issues options and warrants as incentives to employees, officers and directors, as well as to non-employees.

Common stock purchase options and warrants consisted of the following as of March 31, 2008:

| | # shares | Exercise Price | Aggregated Intrinsic Value |
|---|-------------|------------------|----------------------------|
| Options: | | | |
| Outstanding and exercisable, June 30, 2007 | 7,102,363 | \$0.75 to \$5.00 | \$ 129,521 |
| Granted | 20,000 | \$1.60 | |
| Exercised | (599,538) | \$0.75 to \$2.55 | |
| Expired | (10,000) | \$0.75 | |
| Outstanding and exercisable, March 31, 2008 | 6,512,825 | \$0.75 to \$5.00 | \$ 345,413 |
| Warrants: | | | |
| Outstanding and exercisable, June 30, 2007 | 3,002,725 | \$1.75 to \$5.00 | \$ 58,091 |
| Granted | 378,788 | \$1.65 | |
| Exercised | (1,269,199) | \$1.65 to \$3.30 | |
| Expired | (120,000) | \$2.50 to \$5.00 | |
| Outstanding and exercisable, March 31, 2008 | 1,992,314 | \$1.65 to \$5.00 | \$ 304,780 |

Following is a summary of the status of options and warrants outstanding at March 31, 2008:

| Exercise Price | Number Outstanding and Exercisable | Weighted Average Remaining Contractual Life | Weighted Ave Exercise Price |
|-------------------------|---|---|--------------------------------------|
| <u>OPTIONS:</u> | | | |
| \$0.01 - \$0.99 | 14,000 | 3.82 | 0.75 |
| \$1.00 - \$1.99 | 2,513,825 | 7.27 | 1.86 |
| \$2.00 - \$2.99 | 3,155,000 | 6.98 | 2.68 |
| \$3.00 - \$5.00 | 830,000 | 6.03 | 4.27 |
| Totals | 6,512,825 | 6.96 | 2.56 |
| <u>WARRANTS:</u> | | | |
| \$1.00 - \$1.99 | 1,527,652 | 3.68 | 1.79 |
| \$2.00 - \$2.99 | - | - | 0 |
| \$3.00 - \$5.00 | 464,662 | 1.39 | 3.31 |
| Totals | 1,992,314 | 3.14 | 2.15 |

Options:

During the quarter ended September 30, 2007, 20,000 options were granted to two officers with an exercise price of \$1.60 per share and an expiration date of ten years, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded \$24,320 in compensation expense for these options in the accompanying consolidated financial statements.

The Black-Scholes option pricing model used the following assumptions:

| | |
|-------------------------|----------|
| Risk-free interest rate | 4.5% |
| Expected life | 10 years |
| Expected volatility | 65% |

Warrants:

On October 11, 2006, the Company entered into an agreement with a consultant whereby the Company agreed to grant the consultant a total of 100,000 warrants with an exercise price of \$1.85 and 100,000 warrants with an exercise price of \$3.70. The warrants vest equally over the term of the agreement on a quarterly basis commencing on January 11, 2007 and vest only upon completion of the quarter's service as earned. The agreement was terminated on March 31, 2007. The 25,000 warrants vested are exercisable until October 10, 2011 and all non-vested warrants were cancelled at the time of the agreement termination. During the quarter ended March 31, 2007, a total of 25,000 of the warrants had vested. The warrants were valued using the fair value method at \$33,987 or \$1.44 and \$1.28 per share and recorded the expense in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

| | |
|-------------------------|---------|
| Risk-free interest rate | 7.0% |
| Expected life | 5 years |
| Expected volatility | 100% |
| Dividend yield | 0% |

In October 2007, the investors exercised the “green shoe” clause and the Company sold them 757,576 shares of the Company’s common stock valued at \$1,250,000. In addition as part of the agreement, the investors were granted 378,788 warrants with an exercise price of \$1.65 and expire in five years.

NOTE 14 - SEGMENT INFORMATION

The Company has identified three global regions or segments for its products and services; North America, Europe, and Asia-Pacific. Our reportable segments are business units located in different global regions. Each business unit provides similar products and services; license fees for leasing and asset-based software, related maintenance fees, and implementation and IT consulting services. Separate management of each segment is required because each business unit is subject to different operational issues and strategies due to their particular regional location. We account for intercompany sales and expenses as if the sales or expenses were to third parties and eliminate them in the consolidation. The following table presents a summary of operating information and certain balance sheet information for the nine months ended March 31:

| | 2008 | 2007 |
|---------------------------------------|----------------|----------------|
| Revenues from unaffiliated customers: | | |
| North America | \$ 3,153,066 | \$ 3,259,700 |
| Europe | 5,272,598 | 4,097,758 |
| Asia - Pacific | 17,700,856 | 13,348,189 |
| Consolidated | \$ 26,126,520 | \$ 20,705,647 |
| Operating income (loss): | | |
| Corporate headquarters | \$ (2,617,524) | \$ (2,529,923) |
| North America | (252,458) | (426,832) |
| Europe | 925,421 | (698,115) |
| Asia - Pacific | 7,377,401 | 4,412,323 |
| Consolidated | \$ 5,432,840 | \$ 757,453 |
| Net income (loss): | | |
| Corporate headquarters | \$ (1,557,051) | \$ (8,115,730) |
| North America | (253,215) | (417,691) |
| Europe | 867,620 | (789,235) |
| Asia - Pacific | 6,104,786 | 3,144,948 |
| Consolidated | \$ 5,162,140 | \$ (6,177,708) |
| Identifiable assets: | | |
| Corporate headquarters | \$ 14,204,166 | \$ 11,089,939 |
| North America | 2,250,831 | 2,002,815 |
| Europe | 5,278,163 | 5,582,204 |
| Asia - Pacific | 36,066,209 | 24,918,496 |
| Consolidated | \$ 57,799,369 | \$ 43,593,454 |
| Depreciation and amortization: | | |
| Corporate headquarters | \$ 1,051,595 | \$ 1,056,482 |
| North America | 121,525 | 97,432 |
| Europe | 211,523 | 187,114 |
| Asia - Pacific | 884,826 | 742,379 |
| Consolidated | \$ 2,269,469 | \$ 2,083,407 |
| Capital expenditures: | | |
| Corporate headquarters | \$ 4,189 | \$ 3,103 |
| North America | 51,882 | 20,820 |
| Europe | 52,570 | 200,847 |
| Asia - Pacific | 1,877,010 | 1,057,657 |
| Consolidated | \$ 1,985,651 | \$ 1,282,427 |

Net revenues by our various products and services provided are as follows:

| | For the Nine Months Ended March 31, | |
|------------------|--|--------------|
| | 2008 | 2007 |
| Licensing Fees | \$ 7,769,226 | \$ 6,851,496 |
| Maintenance Fees | 4,556,450 | 3,990,096 |
| Services | 13,800,844 | 9,864,055 |
| Total | 26,126,520 | 20,705,647 |

NOTE 15 - MINORITY INTEREST IN SUBSIDIARY

The Company had minority interests in several of its subsidiaries. The balance of the minority interest as of March 31, 2008, was as follows:

| SUBSIDIARY | MIN INT% | MIN INT BALANCE AT 3/31/08 |
|------------|----------|-------------------------------------|
| PK Tech | 39.11% | \$ 4,283,250 |
| NetSol-TiG | 49.90% | 1,282,724 |
| Connect | 49.90% | 268,758 |
| Total | | \$ 5,834,732 |

NetSol PK

In August 2005, the Company's wholly-owned subsidiary, NetSol PK became listed on the Karachi Stock Exchange in Pakistan. The Initial Public Offering ("IPO") sold 9,982,000 shares of the subsidiary to the public thus reducing the Company's ownership by 28.13%. During the three months ended September 30, 2007, the Company was notified by an affiliate party that they had sold their shares; therefore, the adjusted minority ownership was increased to 37.21%. Net proceeds of the IPO were \$4,890,224. As a result of the IPO, the Company is required to show the minority interest of the subsidiary on the accompanying consolidated financial statements.

For the nine months ended March 31, 2008 and 2007, the subsidiary had net income of \$6,257,479 and \$3,845,363, of which \$1,882,231 and \$1,375,247, respectively, was recorded against the minority interest. The balance of the minority interest at March 31, 2008 was \$4,283,250

On May 18 2007, the subsidiary's board of directors authorized a 15% stock bonus dividend to all its stockholders as of that date. The net value of shares issued to minority holders was \$345,415.

On October 19, 2007, the subsidiary's board of directors authorized a 22% stock bonus dividend to all its stockholders as of that date. The net value of shares issued to minority holders was \$545,359.

In February 2008, the Parent sold 948,100 shares of its ownership in NetSol PK on the open market with a value of \$1,765,615. A net gain of \$1,240,808 was recorded as "Other Income" on these consolidated financial statements. As a result of the sale, the minority interest percentage increased 1.9% to 39.11%.

NetSol-TiG:

In December 2004, NetSol forged a new and a strategic relationship with a UK based public company TiG Plc. A Joint Venture was established by the two companies to create a new company, TiG NetSol Pvt Ltd. ("NetSol-TiG"), with 50.1% ownership by NetSol Technologies, Inc. and 49.9% ownership by TiG. The agreement anticipates TiG's technology business to be outsourced to NetSol's offshore development facility.

During year ended June 30, 2005, the Company invested \$253,635 and TiG invested \$251,626 and the new subsidiary began operations during the quarter ended March 31, 2005.

For the nine months ended March 31, 2008 and 2007, the subsidiary had net income of \$1,609,396 and \$777,794, of which \$(131,124), after considering cash dividends of \$1,651,522, and \$333,036 was recorded against the minority interest, respectively. The balance of the minority interest at March 31, 2008 was \$1,282,724.

On September 26, 2007, the subsidiary's board of directors authorized a cash dividend of 100,000,000 Pakistan Rupees ("pkr") or approximately \$1,651,522. Of this amount, the Company is due 50,520,000 pkr or approximately \$834,349. The net value to the minority holders is approximately \$817,173 and is reflected on these unaudited consolidated financial statements.

Connect:

In August 2003, the Company entered into an agreement with United Kingdom based Akhter Group PLC ("Akhter"). Under the terms of the agreement, Akhter Group acquired 49.9 percent of the Company's subsidiary; Pakistan based NetSol Connect PVT Ltd. ("Connect"), an Internet service provider ("ISP"), in Pakistan through the issuance of additional Connect shares. The partnership with Akhter Computers is designed to rollout connectivity and wireless services to the Pakistani national market.

As of June 30, 2005, a total of \$751,356 had been transferred to Connect, of which \$410,781 was from Akhter. In June 2006, a total of \$40,000 cash was distributed to each partner as a return of capital.

For the nine months ended March 31, 2008 and 2006, the subsidiary had net income of \$12,391 and net loss of \$63,165, respectively, of which \$6,183 and (\$31,519) respectively, was recorded against the minority interest. The balance of the minority interest at March 31, 2008 was \$268,758.

Omni

In February 2006, the Company purchased for \$60,012 50.1% of the outstanding shares in Talk Trainers (Private) Limited, ("Talk Trainers"), a Pakistan corporation for \$60,012. Talk Trainers provides educational services, professional courses, training and human resource services to the corporate sector. During the quarter ended June 30, 2006, Talk Trainers changed their name to NetSol Omni. The major stockholder of Talk Trainers was Mr. Ayub Ghauri, brother to the executive officers of the Company, and therefore the acquisition was recorded at historical cost as the entities are under common control. As the effects of this transaction are immaterial to the Company overall, no pro forma information is provided.

In December 2007, the Company purchased the remaining 49.9% of the outstanding shares from the minority shareholders with a historical value of \$12,399 for 25,000 shares of the Company's common stock valued at \$76,750 (see note 13). Also in December, the operations of the subsidiary were merged into the operations of NetSol PK and will be reported under that subsidiary in the future.

For the nine months ended March 31, 2008 and 2007, the subsidiary had a net loss of \$10,224 and \$39,157, of which \$0 and (\$7,959) was recorded against the minority interest. The balance of the minority interest at March 31, 2008 was \$0.

NOTE 16 - CONVERTIBLE NOTE PAYABLE

On June 15, 2006, the Company entered into an agreement with five accredited investors whereby the Company issued five convertible notes payable for an aggregate principal value of \$5,500,000. These notes bore interest at the

rate of 12% per annum and were due in full one year from the issuance date or on June 15, 2007 (the "Financing"). The Convertible Notes could have immediately converted into shares of common stock of the Company at the conversion value (initially set at one share per \$1.65 of principal dollar) to the extent that such conversion did not violate Nasdaq Market Place rules. Due to the limitation rule, none of the note was convertible as of September 30, 2006. Upon the approval of the stockholders, to the extent not already converted into common shares, the Convertible Notes Payable would be immediately converted into shares of Preferred Stock. On October 18, 2006, the shareholders approved the issuance of the shares and on October 30, 2006 the notes were converted into 5,500 shares of Preferred Stock. During the quarter ended September 30, 2006, \$167,489 of interest was accrued. As of September 30, 2006, a total of \$194,989 in accrued interest had been recorded on the notes and was added to the principal of the notes. During the fiscal year ended June 30, 2007, \$251,167 of interest was accrued. On December 13, 2006, the note holders agreed to accept shares of the Company's common stock in payment of the interest owed to them. In addition, the note holders required the Company to issue a total of 60,000 shares of the Company's common stock valued at \$88,201 as a premium to receive payment in shares rather than cash. This amount is included in "interest expense" in the accompanying consolidated financial statements.

The beneficial conversion feature expense based on the net value of the loan after reducing the proceeds by the value of the warrants issued was \$2,208,334.

The common stock shares issued under this financing agreement, including warrants, were to be registered within 120 days after closing (or October 19, 2006). If the Company did not meet the registration requirement, the Company was to pay in cash as liquidated damages for such failure and not as a penalty to each Holder an amount equal to one percent (1%) of such Holder's Purchase Price paid by such Holder pursuant to the Purchase Agreement for each thirty (30) day period until the applicable Event has been cured. The registration statement became effective on January 19, 2007. During the fiscal year ended June 30, 2007, the Company accrued \$168,667 as liquidation damages due and has paid the full amount. As a result, the Company recorded an additional \$12,223 in liquidation damages during the fiscal year ended June 30, 2007. This amount is included in "Accrued Liabilities" in the accompanying consolidated financial statements.

As part of the agreement, the investors received warrants to purchase 1,666,668 shares of the Company's common stock. The warrants have an exercise price of \$2.00 and expire in five years. These warrants were valued using the Black-Scholes model at \$2,108,335 and have been capitalized as a contra-account against the note balance in these consolidated financial statements. These costs are being amortized over the life of the loan or a pro-rata basis as the loan is converted into common or preferred stock. As the loans were converted on October 30, 2006, the balance of \$2,022,363 was amortized and recorded as "amortization of debt discount" in the accompanying consolidated financial statements.

The Black-Scholes pricing model used the following assumptions:

| | |
|-------------------------|---------|
| Risk-free interest rate | 6.00% |
| Expected life | 5 years |
| Expected volatility | 100% |
| Dividend yield | 0% |

Under the agreement, any future financing whereby warrants are issued at an exercise price lower than the exercise price of the warrants in the agreement, an adjustment to the exercise price is to be made. During the fiscal year ended June 30, 2007, a financing was completed which included the issuance of warrants at an exercise price of \$1.65. Following the formula set out in the agreement, it was determined that the adjusted exercise price was \$1.93 per share. As a result, the Company revalued the warrants for the adjusted exercise price using the Black-Scholes model at \$2,120,000 and recorded an expense of \$11,667 for the repricing of the warrants. The Black-Scholes pricing model used the same assumptions as for the original valuation of the warrants.

In connection with this financing, the Company paid \$474,500 in cash for placement agent fees and legal fees. These costs were capitalized and are being amortized over the life of the loan or a pro-rata basis as the loan is converted into common or preferred stock. As the loans were converted on October 30, 2006, the balance of \$454,729 of these costs were amortized and recorded as "amortization of capitalized cost of debt" in the accompanying consolidated financial statements.

As part of the financing, warrants to purchase 266,666 shares of the Company's common stock were issued to the placement agent as part of its fee. The warrants have an exercise price of \$1.65 and expire in two years. These warrants were valued using the Black-Scholes model at \$340,799 and have been capitalized in these consolidated financial statements. These costs are being amortized over the life of the loan or a pro-rata basis as the loan is converted into common or preferred stock. As the loans were converted on October 30, 2006, the balance of \$326,599 of these costs were amortized and recorded as "amortization of capitalized cost of debt" in the accompanying consolidated financial statements.

The Black-Scholes pricing model used the following assumptions:

| | |
|-------------------------|---------|
| Risk-free interest rate | 6.00% |
| Expected life | 2 years |
| Expected volatility | 100% |
| Dividend yield | 0% |

NOTE 17 - ACQUISITION OF McCUE SYSTEMS (now NetSol Technologies North America, Inc.)

On May 6, 2006, the Company entered into an agreement to acquire 100% of the issued and outstanding stock of with McCue Systems, Inc. ("McCue"), a California corporation. The acquisition closed on June 30, 2006. The initial purchase price was estimated at \$8,471,455 of which one-half was due at closing payable in cash and stock. The other half is due in two installments over the next two years based on revenues after the audited December 31, 2006 and 2007 financial statements are completed. On the closing date, \$2,117,864 payable and 958,213 shares to be issued valued at \$1,628,979, adjusted for the market value at closing, was recorded. In July 2006, \$2,057,227 in cash was paid and 930,781 of the shares were issued.

In June 2007, the second installment for the purchase of McCue was determined based on the audited revenues for the twelve month period ending December 31, 2006. Based on the earn-out formula in the purchase agreement, \$1,807,910 was due in cash and stock. On June 27, 2007, 397,700 shares of the 408,988 shares due of the Company's restricted common stock were issued to the former shareholders of McCue. The balance represents former shareholders of McCue that haven't been located as of this date. In July and August 2007, \$450,000 and \$429,007 of the cash portion was paid to the shareholders. As a result of the second payment the Company recorded an addition of \$1,615,595 to goodwill.

NOTE 18 - SUBSEQUENT EVENTS

On May 2, 2008, the Company held its Annual General meeting at which time the shareholders voted on amendment of the Company's articles of incorporation to increase the number of authorized shares of capital stock from 50,000,000 to 100,000,000 and to adopted the Company's 2008 Equity Incentive Plan ("2008 Plan"). Both of these proposals were passed by a majority of the shareholders voting.

Item 2. Management's Discussion and Analysis Or Plan Of Operation

The following discussion is intended to assist in an understanding of the Company's financial position and results of operations for the quarter ending March 31, 2008.

Forward-Looking Information.

This report contains certain forward-looking statements and information relating to the Company that is based on the beliefs of its management as well as assumptions made by and information currently available to its management. When used in this report, the words "anticipate", "believe", "estimate", "expect", "intend", "plan", and similar expressions as they relate to the Company or its management, are intended to identify forward-looking statements. These statements reflect management's current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this report as anticipated, estimated or expected. The Company's realization of its business aims could be materially and adversely affected by any technical or other problems in, or difficulties with, planned funding and technologies, third party technologies which render the Company's technologies obsolete, the unavailability of required third party technology licenses on commercially reasonable terms, the loss of key research and development personnel, the inability or failure to recruit and retain qualified research and development personnel, or the adoption of technology standards which are different from technologies around which the Company's business ultimately is built. The Company does not intend to update these forward-looking statements.

INTRODUCTION

NetSol Technologies, Inc. ("NetSol" or the "Company") is global information technology solution provider. NetSol's global resource base includes diversely qualified and experienced resources across software development, project management, operations & multiple products or services offerings. NetSol helps clients to identify, evaluate and implement technology solutions to meet their strategic business challenges and maximize their bottom line. By utilizing its worldwide resources, NetSol delivers high-quality, cost-effective equipment and vehicle finance portfolio management solutions. The Company also delivers managed IT services ranging from consulting and application development to systems integration and development outsourcing. NetSol's commitment to quality is demonstrated by its achievement of both ISO 9001 and SEI (Software Engineering Institute) CMMi (Capability Maturity Model) Level 5 assessment, a distinction shared by only 94 companies worldwide. The Company's clients include global automakers, financial institutions, technology companies and governmental agencies. NetSol's largest customers, DaimlerChrysler Services and Toyota, rank the Company as a preferred vendor in more than 40 countries. Founded in 1996, NetSol is headquartered in Calabasas, California. NetSol Technologies also has operations and/or offices in: Horsham, United Kingdom; the San Francisco Bay Area, California, USA; Adelaide, and Sydney, Australia; Beijing, China; Lahore, Islamabad, Rawalpindi and Karachi, Pakistan; and, Bangkok, Thailand.

NetSol offers a broad spectrum of IT products and IT services which management believes deliver a high return on investment for its customers. NetSol has nearly perfected its delivery capabilities by continuously investing in maturing its software development and Quality Assurance ("QA") processes. NetSol believes its key competitive advantage is its ability to build high quality enterprise applications using its offshore development facility in Lahore, Pakistan while also utilizing our facility in Beijing, China. A major portion of NetSol's revenues are derived from exports in general and LeaseSoft in particular. The use of the facility in Pakistan as the basis for software development, configuration and professional services represents a cost-effective and economical cost arbitrage model that is based on the globally acclaimed advantages of outsourcing and offshore development. In the areas of professional services, the Company is now changing its focus from just being a custom development facility to offering high end services like systems integration and technology consulting services. NetSol management believes that the use of this model will only further benefit the Company in its penetration of US, European, developed and

developing country markets.

The company has initiated a strategic evolution of its business offerings to provide its customers a BestShoring (TM) solutions strategy. This strategy yields an improved return on investment while delivering in-depth globally sourced domain experience as well as localized support to its clients. BestShoring (TM) is simply defined as NetSol Technologies' ability to draw upon its global resource base and construct the best possible solution and price for each and every customer. Unlike traditional outsourcing offshore vendors, NetSol draws upon an international workforce and delivery capability to ensure a "BestShoring(TM) delivers a BestSolution(TM)" approach.

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Information technology services are valuable only if they fulfill the business strategy and project objectives set forth by the customer. NetSol's expert consultants have the technical knowledge and business experience to ensure the optimization of the development process in alignment with basic business principles. The Company offers a broad array of professional services to clients in the global commercial markets and specializes in the application of advanced and complex IT enterprise solutions to achieve its customers' strategic objectives. Its service offerings include IT Consulting & Services; NetSol Defense Division; Business Intelligence, Information Security, Outsourcing Services and Software Process Improvement Consulting; maintenance and support of existing systems; and, project management.

In addition to services, our offerings include our flagship solution, LeaseSoft. LeaseSoft, a robust suite of four software applications, is an end-to-end solution for the lease and finance industry covering the complete leasing and finance cycle starting from quotation origination through end of contract. The four software applications under LeaseSoft 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. NetSol recently added LeaseSoft Fleet Management System (FMS). The Company has already signed an agreement for FMS with a major automotive company in the Asia Pacific region.

LeaseSoft is a result of more than eight years of effort resulting in over 60 modules grouped in four comprehensive applications. These four applications are complete systems in themselves and can be used independently to exhaustively address specific sub-domains of the leasing/financing cycle. When used together, they fully automate the entire leasing / financing cycle.

Beyond LeaseSoft, our product offerings include LeasePak. LeasePak provides the leasing technology industry with the development of Web-enabled and Web-based tools to deliver superior customer service, reduce operating costs, streamline the lease management lifecycle, and support collaboration with origination channel and asset partners. LeasePak can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. And for scalability, NetSol North America offers the LeasePak Bronze, Silver and Gold Editions for systems and portfolios of virtually all sizes and complexities. These solutions provide the equipment and vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors.

New product offerings and services include: inBanking, which provides full process automation and decision support in the front, middle and back offices of treasury and capital markets operations; LeaseSoft Portals and Modules through our European operations; LeasePak 6.0a of our LeasePak product suite; and, NetSol Technology Institute, our specialized career and technology program in Pakistan.

The Company is continuing with its consolidation of operating units, placing up to 60% of all service and product operations under the direct control of its center of excellence, in Lahore, Pakistan. This consolidation enables the Company to coordinate and streamline product, service and marketing while taking further advantage of the cost arbitrage offered by our highly trained, highly productive, Pakistani resources. This consolidation follows the successful integration of the operations acquired in the United Kingdom and Burlingame, California and should facilitate the use of these regional offices as platforms for launching an expanding services offering, relying on the experience and resources in Pakistan and our product offerings in North America and Europe.

While the company will no longer be divided into groups and regions, the Company will continue to maintain regional offices in Burlingame, California for North America and the Parent headquarters in Calabasas, California; in Horsham, the United Kingdom, for Europe and; our "center of excellence" operations in Lahore, Pakistan for Asia Pacific. The Company will continue to maintain country and/or services or products specific sales offices in China, Australia, Thailand, and Pakistan.

PLAN OF OPERATIONS

Management has set the following goals for NetSol for the next 12 months:

- Execute a diversification plan to create multiple development centers in other emerging markets such as the Philippines, Eastern Europe, and Central and South America.
- Complete the integration of regional management, customers, and products within each of NetSol's regional offices in US, UK, and Thailand.
- The new senior management in the North American division to effectively steer the company towards a successful launch of Global Business Services model, global solutions, new verticals utilizing the new concept of BestShoring(TM) for the BestSolution model.

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- Efficiency, cost effectiveness and better leveraging the offshore and near-shore development capabilities.
- Invest aggressively in the North American division's sales organization, infrastructure and resources.
- Continued management and products reorganization and restructuring in every NetSol subsidiary.
 - Introduce and market two LeaseSoft modules: WSF and CAPS in the US market.
- Expand product portfolio by enhancing current products and new releases to cater to wider global markets.
- Enhance software design, engineering and service delivery capabilities by increasing investment in training.
- Continue to invest in research and development in an amount between 7-10% of yearly budgets in financial, banking and various other domains within NetSol's core competencies.
 - Recruit new sales personnel in US to grow the penetration in North American markets.
- Aggressively penetrate the booming Chinese market and continue to exploit NetSol's presence in China.
- Increase Capex, to enhance communications and development infrastructure. Roll out a second phase of construction of a technology campus in Lahore to respond to a growth of new orders and customers.
- Market aggressively on a regional basis the Company's tri-product solutions by broader marketing efforts for LeaseSoft in APAC and untapped markets; aggressively grow LeasePak solutions in North America; and, further establish NetSol-Europe Enterprise solution in the European markets.

Top Line Growth through Investment in organic marketing activities. NetSol marketing activities will continue to:

- Expand the marketing and distributions of regional products solutions in four continents: North America, Europe, Asia Pacific and Africa.
- Expand relationships with all 40 customers in the US, Europe and Asia Pacific by offering enhanced product offerings.
 - Product positioning through alliances and partnership.
- Capitalize on NetSol, NTNA and NTE affiliations with ELA (Equipment Leasing Association of North America) and European leasing forums.
- Become a leading IT company in APAC in asset-based applications and capitalize on the surge in demand of NetSol products.
 - Joint Ventures and new alliances.
- Be a dominant IT solutions provider in Pakistan amidst explosive growth in the economy and automation in private and public sectors.

Funding and Investor Relations goals and activities for the next 12 months:

- Continue to utilize our IR and communications firm in New York to position NetSol as a strong IT company with unlimited growth and upside outlook.
- Increase the valuation of NetSol stock price in the US resulting in investors and employees exercising options and warrants.
- Adequately capitalize NetSol to face challenges and opportunities presented through the most economical means and vehicles creating further stability and sustainability.
- Focus each division level to achieve optimum profitability and efficiencies to reduce the need for new external capital other than to fund major new initiatives.
- Aggressive marketing campaign on Wall Street to get the story of NetSol known to retail, institutions, micro cap funds and analysts. Increase activities to present NetSol in various investor forums aimed at analysts and micro cap funds.
- Continue to efficiently and prudently manage cash flow and budgets. Subsidiaries will contribute to support the headquarters and corporate overheads.
- Make every effort to enhance NetSol's market capitalization in the US. At least two research analysts recently upgraded the target price from \$4 to \$6.

Improving the Bottom Line goals:

- Grow the top line; enhance gross profit margins to 65% by leveraging the low-cost development facility in Lahore and by utilizing the BestShoring(TM) for the BestSolution model.
- Generate much higher revenues per developer and service group, enhance productivity and lower cost per employee overall.
- Consolidate subsidiaries and integrate and combine entities to reduce overheads and employ economies of scale.
 - Continue to review costs at every level to consolidate and enhance operating efficiencies.
 - Grow process automation and leverage the best practices of CMMi level 5.
- Cost efficient management of every operation and continue further consolidation to improve bottom line.
 - Initiate steps to consolidate some of the new lines of services businesses to improve bottom line.

Management continues to be focused on building its delivery capability and has achieved key milestones in that respect. Key projects are being delivered on time and on budget, quality initiatives are succeeding, especially in maturing internal processes. Management believes that further leverage was provided by the development 'engine' of NetSol, which became CMMi Level 2 in early 2002. In a quest to continuously improve its quality standards, NetSol reached CMMi Level 5 on August 11, 2006; the Company is expecting a growing demand for its products and alliances from blue chip companies worldwide. NetSol plans to further enhance its capabilities by creating similar development engines in other Southeast Asian countries with CMMi levels quality standards. This would make NetSol much more competitive in the industry and provide the capabilities for development in multiple locations. Increases in the number of development locations with these CMMi levels of quality standards will provide customers with options and flexibility based on costs and broader access to skills and technology. NetSol PK has already launched implementation of ISO 27001, a global standard and a set of best practices for Information Security Management. NetSol PK was certified as an ISO 27001 company in January 2008. In December 2007, NetSol's flagship LeaseSoft solution received the Best Financial Industry Application Award for 2007 by the Asia Pacific ICT Alliance (APICTA) located in Singapore.

MATERIAL TRENDS AFFECTING NETSOL

NetSol has identified the following material trends affecting NetSol

Positive trends:

- Outsourcing of services and software development is growing worldwide.
- Very robust and rich financial markets in the UAE and Middle East region offer new opportunities for capital and exposure.
- The leasing and finance industry in North America has increased to about \$260 billion and \$700 billion worldwide.
 - Present sluggish economy is proving to be a catalyst for low cost solutions providers, globally.
- Several new major captive auto manufacturers such as Nissan Auto Finance in China and BMW in Hong Kong went live, signaling very positive demand for LeaseSoft solutions.
- On December 17, 2007, a seven page supplement in USA TODAY featuring Pakistan highlighted NetSol Technologies, Inc. as a leading IT company in Pakistan with focused growth in the US and continued success in the Chinese, European and emerging markets.
- The levy of Indian IT sector excise tax of 35% (NASSCOM) on software exports is very positive for NetSol. In Pakistan there is a 15 year tax holiday on IT exports of services. There are 10 more years remaining on this tax incentive.
- Cost arbitrage, labor costs are still very competitive and attractive when compared with India. Pakistan is significantly under priced for IT services and programmers as compared to India.
 - Pakistan is one of the fastest growing IT destinations from emerging and new markets.
- Significant emergence of new IT destination in Central and South America, diversifying opportunities for lower cost locations.
- Chinese market is burgeoning and wide open for NetSol's 'niche' products and services. NetSol is gaining a strong foothold in this market.
- Only a handful of IT solutions providers in the world offer a global distribution network, complete end-to-end solution, and presence in the world's key and strategic markets.
- One of the few global IT companies in the leasing and finance domain with gold standard CMMI level 5 accreditation.
 - NetSol and NetSol PK are both listed in one of the most visible stock indexes in their respective markets.
 - Overall economic expansion worldwide and explosive growth in the emerging markets specifically.
 - Political stability and formation of newly democratically elected government in Pakistan.
 - Continuous improvement of US and Indian relationships with Pakistan.

·Economic turnaround in Pakistan including: a steady increase in gross domestic product; much stronger dollar reserves, which is at an all time high of over \$15 billion; stabilizing reforms of government and financial institutions; improved credit ratings in the western markets, and elimination of corruption at the highest level.

Negative trends:

- Persistent negative media coverage and headline news on daily development in Pakistan has cautioned the market and investors creating anxiety and uncertainty.
 - The challenging times in the US financial sectors as a result of sub-prime crisis, hike in oil prices and declining home sales has resulted in slowed economy and much more cautious IT spending budgets.
- The disturbance in the Middle East, Iraq War, and rising terrorist activities post 9/11 worldwide have resulted in issuance of travel advisory in some of the most opportunistic markets. In addition, travel restrictions and new immigration laws provide delays and limitations on business travel.
 - Negative perception and image created by extremism and terrorism in the South Asian region.

CRITICAL ACCOUNTING POLICIES

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States (“GAAP”). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, and expense amounts reported. These estimates can also affect supplemental information contained in the external disclosures of NetSol including information regarding contingencies, risk and financial condition. Management believes our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. Valuations based on estimates are reviewed for reasonableness and conservatism on a consistent basis throughout NetSol. Primary areas where our financial information is subject to the use of estimates, assumptions and the application of judgment include our evaluation of impairments of intangible assets, and the recoverability of deferred tax assets, which must be assessed as to whether these assets are likely to be recovered by us through future operations. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS

The recoverability of these assets requires considerable judgment and is evaluated on an annual basis or more frequently if events or circumstances indicate that the assets may be impaired. As it relates to definite life intangible assets, we apply the impairment rules as required by SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and Assets to Be Disposed Of” which requires significant judgment and assumptions related to the expected future cash flows attributable to the intangible asset. The impact of modifying any of these assumptions can have a significant impact on the estimate of fair value and, thus, the recoverability of the asset.

INCOME TAXES

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets generated by the Company or any of its subsidiaries are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets resulting from the net operating losses are reduced in part by a valuation allowance. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based upon historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. During the fiscal years ended June 30, 2007 and 2006, we estimated the allowance on net deferred tax assets to be one hundred percent of the net deferred tax assets.

CHANGES IN FINANCIAL CONDITION**Quarter Ended March 31, 2008 as compared to the Quarter Ended March 31, 2007:**

Net revenues and income for the quarter ended March 31, 2008 and 2007 (unaudited) are broken out among the subsidiaries as follows:

| | Revenue | 2008 % | Net Income | Revenue | 2007 % | Net Income |
|------------------------|--------------|-----------|--------------|--------------|-----------|--------------|
| Corporate headquarters | \$ - | 0.00% | \$ 405,152 | \$ - | 0.00% | \$ (872,813) |
| North America: | | | | | | |
| NetSol - North America | 871,548 | 9.61% | (293,305) | 907,120 | 11.91% | (217,824) |
| | 871,548 | 9.61% | (293,305) | 907,120 | 11.91% | (217,824) |
| Europe: | | | | | | |
| NetSol UK | 488,129 | 5.38% | 429,192 | 43,082 | 0.57% | (192,032) |
| NetSol - Europe | 1,471,989 | 16.23% | 32,508 | 1,088,975 | 14.30% | (296,591) |
| | 1,960,118 | 21.62% | 461,700 | 1,132,057 | 14.86% | (488,623) |
| Asia-Pacific: | | | | | | |
| NetSol PK | 4,965,464 | 54.77% | 2,418,136 | 4,580,093 | 60.14% | 1,670,550 |
| NetSol-TiG | 989,268 | 10.91% | 413,454 | 654,356 | 8.59% | 277,339 |
| NetSol Connect | 211,520 | 2.33% | 6,756 | 245,102 | 3.22% | 4,237 |
| NetSol-Omni | - | 0.00% | - | 17,725 | 0.23% | (11,213) |
| NetSol-Abraxas | | | | | | |
| Australia | 68,895 | 0.76% | (11,405) | 79,513 | 1.04% | (22,547) |
| | 6,235,147 | 68.77% | 2,826,941 | 5,576,789 | 73.22% | 1,918,366 |
| Totals | \$ 9,066,813 | 100.00% | \$ 3,400,488 | \$ 7,615,966 | 100.00% | \$ 339,106 |

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The following table sets forth the items in our unaudited consolidated statement of operations for the three months ended March 31, 2008 and 2007 as a percentage of revenues.

| | For the Three Months Ended March 31, | | | |
|---|---|----------------|------------------|---------------|
| | 2008 | % | 2007 | % |
| Net Revenues: | | | | |
| Licence fees | \$ 2,998,867 | 33.08% | \$ 2,554,289 | 33.54% |
| Maintenance fees | 1,482,654 | 16.35% | 1,335,893 | 17.54% |
| Services | 4,585,292 | 50.57% | 3,725,784 | 48.92% |
| Total revenues | 9,066,813 | 100.00% | 7,615,966 | 100.00% |
| Cost of revenues | | | | |
| Salaries and consultants | 2,620,722 | 28.90% | 2,234,809 | 29.34% |
| Travel | 394,841 | 4.35% | 447,288 | 5.87% |
| Repairs and maintenance | 99,262 | 1.09% | 133,961 | 1.76% |
| Insurance | 30,005 | 0.33% | 51,294 | 0.67% |
| Depreciation and amortization | 316,652 | 3.49% | 279,405 | 3.67% |
| Other | 522,013 | 5.76% | 790,927 | 10.39% |
| Total cost of sales | 3,983,495 | 43.93% | 3,937,684 | 51.70% |
| Gross profit | 5,083,318 | 56.07% | 3,678,282 | 48.30% |
| Operating expenses: | | | | |
| Selling and marketing | 898,686 | 9.91% | 825,586 | 10.84% |
| Depreciation and amortization | 477,630 | 5.27% | 483,801 | 6.35% |
| Bad debt expense | - | 0.00% | (231) | 0.00% |
| Salaries and wages | 1,034,784 | 11.41% | 915,481 | 12.02% |
| Professional services, including non-cash compensation | 114,436 | 1.26% | 254,359 | 3.34% |
| General and administrative | 792,499 | 8.74% | 687,881 | 9.03% |
| Total operating expenses | 3,318,035 | 36.60% | 3,166,877 | 41.58% |
| Income from operations | 1,765,283 | 19.47% | 511,405 | 6.71% |
| Other income and (expenses): | | | | |
| Gain (loss) on sale of assets | (891) | -0.01% | (6,729) | -0.09% |
| Liquidation damages | - | 0.00% | (47,057) | -0.62% |
| Fair market value of warrants issued | - | 0.00% | (33,987) | -0.45% |
| Interest expense | (121,651) | -1.34% | (83,819) | -1.10% |
| Interest income | 84,363 | 0.93% | 46,867 | 0.62% |
| Gain on sale of subsidiary shares | 1,240,808 | 13.69% | - | 0.00% |
| Other income and (expenses) | 447,889 | 4.94% | 10,081 | 0.13% |
| Total other income (expenses) | 1,650,518 | 18.20% | (114,644) | -1.51% |
| Net income (loss) before minority interest in subsidiary | | | | |
| | 3,415,801 | 37.67% | 396,761 | 5.21% |
| Minority interest in subsidiary | (1,121,787) | -12.37% | (568,237) | -7.46% |
| Income taxes | (15,314) | -0.17% | (57,655) | -0.76% |
| Net income (loss) | 2,278,700 | 25.13% | (229,131) | -3.01% |
| Dividend required for preferred stockholders | (33,508) | -0.37% | (94,088) | -1.24% |
| Net income (loss) applicable to common shareholders | 2,245,192 | 24.76% | (323,219) | -4.24% |

Net revenues for the quarter ended March 31, 2008 were \$9,066,813 as compared to \$7,615,966 for the quarter ended March 31, 2007. This reflects an increase of \$1,450,847 or 19% in the current quarter as compared to the quarter ended March 31, 2007. Revenue from services, which includes consulting and implementation, increased 23% from \$3,725,784 to \$4,585,292. License and maintenance revenues both grew between 11-17% over the comparable quarter in fiscal 2007. The increase is attributable mostly to growth in services business, several new license sales of LeaseSoft in China, growing outsourcing business of NetSol-TIG (JV) and additional maintenance work. In addition, several new verticals have been formed in Lahore and are now producing revenues. The Company has experienced solid and consistent demand for IT services in the domestic sectors of Pakistan. The Company had hoped to close at least two major service contracts in Pakistan (with an approximate value of \$4 million). This is now expected to occur in within the next two quarters. NetSol in Pakistan has been pre-qualified to participate in several public sector projects. The most significant is the World Bank funded Land Record Management Information Systems or LRMIS. This project has a World Bank grant of \$300 million in Pakistan and NetSol was given two pilot projects in the province of Punjab in 2007, and a recent one in Islamabad. NetSol anticipates winning key projects in this area in next few quarters.

The activities for NetSol new license sales - LeaseSoft is increasingly on the rise. The current pipeline boasts over 30 plus captive auto manufacturers globally at an advance stage of closing or decision making.

NetSol made a significant move by acquiring 100% of a US based software company McCue Systems Inc., (now "NetSol Technologies North America") ("NTNA") in June 2006. The acquisition of NTNA has provided the Company with a very strong customer base and an established product in the leasing vertical. We have recently hired a new and very experienced management team in the operations, sales and marketing areas. This new team has already integrated very effectively with NetSol at global level. The integration of a dedicated offshore team into NTNA Development Department is continuing, with ongoing projects and management processes in place. In addition, the entire NTNA team is working to increase customer satisfaction and improve the quality of the product which will have an effect of increasing sales to existing customers and greater referrals.

Due to the revision in our pricing policy, LeaseSoft license value in APAC is in the range of \$1.0 to \$2.0 million, without factoring in services maintenance and implementation fees. Normally, NetSol negotiates 20-25% yearly maintenance contracts with customers. A number of large leasing companies will be looking to renew legacy applications. This places NetSol in a very strong position to capitalize on any upturn in IT spending by these companies. As the Company continues to sell more of these licenses, management believes it is possible that the margins could increase to upward of 60%.

During the current quarter, in our APAC division, a major automotive captive in China went live with our LeaseSoft Solution. NetSol has signed a contract with one of the largest leasing companies in Saudi Arabia for LeaseSoft and this contract marks NetSol's entry into the lucrative Middle East region. NetSol won a contract with a leading bank in Pakistan for Basel II advisory services This opportunity for NetSol represents a new business sector vertical for the Company. In addition, NetSol has launched a new information security management initiative in Pakistan, called "Secure Pakistan". The project aims to secure critical information, while in storage or transfer, from theft.

Our joint-venture, NetSol-TiG continues to grow overall. The total programmer strength is over 130 people dedicated to the joint-venture projects. In addition, two new projects in the United States of America were signed and Innovation Group's release management of five different countries has recently been given to our Extended Innovation ("EI") division which works with the joint-venture.

The gross profit was \$5,083,318 in the quarter ending March 31, 2008 as compared with \$3,678,282 for the same quarter of the previous year for an increase of 38% or \$1,405,036. The gross profit percentage for the quarter increased approximately 16% to 56% from 48% in the quarter ended March 31, 2007. The cost of sales was \$3,983,495 in the current quarter compared to \$3,937,684 in the comparable quarter of fiscal 2007. As a percentage of sales, it decreased 7.8% from 51.7% for the quarter ended March 31, 2007 to 43.9% in the current quarter. Salaries and consultant fees increased by \$385,913 from \$2,234,809 in the prior comparable quarter to \$2,620,722, as a percentage of sales, it decreased slightly from 29.34% in the prior comparable quarter to 28.9% in the current quarter. The gross profit margin is expected to continue to improve as the integration of both the operations in Horsham, UK and Burlingame, US are fully integrated and cost savings are achieved. The Company has invested heavily in its infrastructure, both in people and equipment during the current fiscal year as it situated itself for increased growth organically and from the acquisitions of NTE in February 2005 and NTNA in June 2006.

Operating expenses were \$3,318,035 for the quarter ending March 31, 2008 as compared to \$3,166,877, for the corresponding period last year for a slight increase of \$151,158. As a percentage of sales it decreased 5% from 42% to 37%. Depreciation and amortization expense amounted to \$477,630 and \$483,801 for the quarter ended March 31, 2008 and 2007, respectively. Combined salaries and wage costs were \$1,034,784 and \$915,481 for the comparable periods, respectively, or an increase of \$119,303 from the corresponding period last year. As a percentage of sales, these costs decreased slightly from 12% to 11%. General and administrative expenses were \$792,499 and \$687,881 for the quarters ended March 31, 2008 and 2007, respectively, an increase of \$104,618 or 15%. As a percentage of

sales, these expenses were 8.7% in the current quarter compared to 9.0% in the comparable quarter.

Selling and marketing expenses were \$898,686 and \$825,586, in the quarter ended March 31, 2008 and 2007, respectively, reflecting the growing sales activity of the Company. This reflects a 9% increase or \$73,100. As a percentage of sales, it decreased 1% to 10% from 11%. Professional services expense decreased 55% to \$114,436 in the quarter ended March 31, 2008, from \$254,359 in the corresponding period last year.

Income from operations was \$1,765,283 compared to \$511,405 for the quarters ended March 31, 2008 and 2007, respectively. This represents an increase of \$1,253,878 for the quarter compared with the comparable period in the prior year. As a percentage of sales, net income from operations was 19% in the current quarter compared to 7% in the prior period.

Net income was \$2,301,785 compared to net loss of \$229,131 for the quarters ended March 31, 2008 and 2007, respectively. This is an increase of \$2,483,859 compared to the prior year. The current fiscal quarter amount includes a net reduction of \$1,098,703 compared to \$568,237 in the prior period for the 49.9% minority interest in Connect, and NetSol-TiG owned by another party, and the 39.11%/37.21% minority interest in NetSol PK. Interest expense was \$121,651 in the current quarter as compared to \$83,819 in the comparable period. The current quarter includes a net gain on the sale of some of the Parent's shares in NTPK on the open market of \$1,240,808. Net income per share, basic and diluted, was \$0.09 as compared to net loss per share, basic and diluted of \$0.01 for the quarters ended March 31, 2008 and 2007.

The net EBITDA income was \$3,233,032 compared to \$675,549 after amortization and depreciation charges of \$794,282 and \$763,206, income taxes of \$15,314 and \$57,655, and interest expense of \$121,651 and \$83,819, respectively. The EBITDA earning per share, basic and diluted was \$0.13 for the quarter ended March 31, 2008 and \$0.04 for the quarter ended March 31, 2007. Although the net EBITDA income is a non-GAAP measure of performance, we are providing it because we believe it to be an important supplemental measure of our performance that is commonly used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry. It should not be considered as an alternative to net income, operating income or any other financial measures calculated and presented, nor as an alternative to cash flow from operating activities as a measure of our liquidity. It may not be indicative of the Company's historical operating results nor is it intended to be predictive of potential future results.

Nine Months Ended March 31, 2008 as compared to the Nine Months Ended March 31, 2007:

Net revenues and income for the nine months ended March 31, 2008 and 2007 (unaudited) are broken out among the subsidiaries as follows:

| | 2008 | | 2007 | | | |
|--------------------------|------------|--------|----------------|------------|--------|----------------|
| | Revenue | % | Net Income | Revenue | % | Net Income |
| Corporate headquarters | \$ - | 0.00% | \$ (1,580,134) | \$ 4,500 | 0.02% | \$ (8,115,730) |
| North America: | | | | | | |
| NetSol - North America | 3,153,066 | 12.07% | (253,215) | 3,255,200 | 15.72% | (417,691) |
| | 3,153,066 | 12.07% | (253,215) | 3,255,200 | 15.72% | (417,691) |
| Europe: | | | | | | |
| NetSol UK | 647,901 | 2.48% | 380,136 | 94,604 | 0.46% | (706,443) |
| NetSol - Europe | 4,624,697 | 17.70% | 487,484 | 4,003,154 | 19.33% | (82,792) |
| | 5,272,598 | 20.18% | 867,620 | 4,097,758 | 19.79% | (789,235) |
| Asia-Pacific: | | | | | | |
| NetSol PK | 13,844,764 | 52.99% | 6,257,479 | 10,488,631 | 50.66% | 3,845,363 |
| NetSol-TiG | 2,940,146 | 11.25% | 1,609,396 | 1,703,982 | 8.23% | 777,794 |
| NetSol Connect | 616,383 | 2.36% | 12,391 | 739,834 | 3.57% | (63,165) |
| NetSol-Omni | 30,366 | 0.12% | (10,224) | 43,984 | 0.21% | (39,157) |
| NetSol-Abraxas Australia | 269,197 | 1.03% | 15,337 | 371,758 | 1.80% | (1,806) |

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| | | | | | | |
|--------|---------------|---------|--------------|---------------|--------|----------------|
| | 17,700,856 | 67.75% | 7,884,379 | 13,348,189 | 64.47% | 4,519,029 |
| Totals | \$ 26,126,520 | 100.00% | \$ 6,918,650 | \$ 20,705,647 | 99.98% | \$ (4,803,627) |

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The following table sets forth the items in our unaudited consolidated statement of operations for the nine months ended March 31, 2008 and 2007 as a percentage of revenues.

| | For the Nine Months Ended March 31, | | | |
|---|--|---------|--------------|---------|
| | 2008 | % | 2007 | % |
| Net Revenues: | | | | |
| Licence fees | \$ 7,769,226 | 29.74% | \$ 6,851,496 | 33.09% |
| Maintenance fees | 4,556,450 | 17.44% | 3,990,096 | 19.27% |
| Services | 13,800,844 | 52.82% | 9,864,055 | 47.64% |
| Total revenues | 26,126,520 | 100.00% | 20,705,647 | 100.00% |
| Cost of revenues | | | | |
| Salaries and consultants | 7,342,743 | 28.10% | 6,608,606 | 31.92% |
| Travel | 972,998 | 3.72% | 1,195,315 | 5.77% |
| Repairs and maintenance | 332,448 | 1.27% | 313,514 | 1.51% |
| Insurance | 153,760 | 0.59% | 153,595 | 0.74% |
| Depreciation and amortization | 847,288 | 3.24% | 693,703 | 3.35% |
| Other | 1,341,513 | 5.13% | 1,479,478 | 7.15% |
| Total cost of sales | 10,990,750 | 42.07% | 10,444,211 | 50.44% |
| Gross profit | 15,135,770 | 57.93% | 10,261,436 | 49.56% |
| Operating expenses: | | | | |
| Selling and marketing | 2,817,908 | 10.79% | 2,105,920 | 10.17% |
| Depreciation and amortization | 1,422,181 | 5.44% | 1,389,704 | 6.71% |
| Bad debt expense | 3,277 | 0.01% | 117,267 | 0.57% |
| Salaries and wages | 2,758,434 | 10.56% | 2,914,707 | 14.08% |
| Professional services, including non-cash compensation | 413,437 | 1.58% | 774,203 | 3.74% |
| General and administrative | 2,287,693 | 8.76% | 2,202,182 | 10.64% |
| Total operating expenses | 9,702,930 | 37.14% | 9,503,983 | 45.90% |
| Income from operations | 5,432,840 | 20.79% | 757,453 | 3.66% |
| Other income and (expenses): | | | | |
| Gain (loss) on sale of assets | (33,044) | -0.13% | (19,067) | -0.09% |
| Beneficial conversion feature | - | 0.00% | (2,208,334) | -10.67% |
| Amortization of debt discount and capitalized cost of debt | - | 0.00% | (2,803,691) | -13.54% |
| Liquidation damages | - | 0.00% | (180,890) | -0.87% |
| Fair market value of warrants issued | - | 0.00% | (33,987) | -0.16% |
| Interest expense | (544,597) | -2.08% | (543,342) | -2.62% |
| Interest income | 159,801 | 0.61% | 265,916 | 1.28% |
| Gain on sale of subsidiary shares | 1,240,808 | 4.75% | - | 0.00% |
| Other income and (expenses) | 709,113 | 2.71% | 88,935 | 0.43% |
| Total other income (expenses) | 1,532,081 | 5.86% | (5,434,460) | -26.25% |
| Net income (loss) before minority interest in subsidiary | 6,964,921 | 26.66% | (4,677,007) | -22.59% |
| Minority interest in subsidiary | (1,756,509) | -6.72% | (1,374,081) | -6.64% |
| Income taxes | (46,272) | -0.18% | (126,620) | -0.61% |
| Net income (loss) | 5,162,140 | 19.76% | (6,177,708) | -29.84% |
| | (145,033) | -0.56% | (159,686) | -0.77% |

Dividend required for preferred stockholders

| | | | | |
|---|------------------|---------------|--------------------|----------------|
| Subsidiary dividend (minority holders portion) | (817,173) | -3.13% | - | 0.00% |
| Bonus stock dividend (minority holders portion) | (545,359) | -2.09% | - | 0.00% |
| <i>Net income (loss) applicable to common shareholders</i> | 3,654,575 | 13.99% | (6,337,394) | -30.61% |

Net revenues for the nine months ended March 31, 2008 were \$26,126,520 as compared to \$20,705,647 for the nine months ended March 31, 2007. This reflects an increase of \$5,420,873 or 26% in the current period as compared to the period ended March 31, 2007. Revenue from services, which includes consulting and implementation, increased 40% from \$9,864,055 to \$13,800,844. License and maintenance revenues both grew about 14% over the comparable period in fiscal 2007. The increase is attributable mostly to growth in services business, several new license sales of LeaseSoft in China, growing outsourcing business of NetSol-TIG (JV) and additional maintenance work. In addition, several new verticals have been formed in Lahore and are now producing revenues. The Company has experienced solid and consistent demand for IT services in the domestic sectors of Pakistan. NetSol in Pakistan has been pre-qualified to participate in several public sector projects. The most significant is the World Bank funded Land Record Management Information Systems or LRMIS. This project has a World Bank grant of \$300 million in Pakistan and NetSol was given two pilot projects in the province of Punjab in 2007, and a recent one in Islamabad. We anticipate winning additional key projects in this area in next few quarters.

The activities for NetSol new license sales - LeaseSoft is increasingly on the rise. The current pipeline boasts over 30 plus captive auto manufacturers globally at an advance stage of closing or decision making.

NetSol made a significant move by acquiring 100% of a US based software company McCue Systems Inc., (now "NetSol Technologies North America") ("NTNA") in June 2006. The acquisition of NTNA has provided the Company with a very strong customer base and an established product in the leasing vertical. During the current nine months, we have hired a new and very experienced management team in the operations, sales and marketing areas. This new team has integrated very effectively with NetSol at global level. The integration of a dedicated offshore team into NTNA Development Department is continuing, with ongoing projects and management processes in place. Offshore resources are now making significant contribution throughout the development lifecycle. In addition, the entire NTNA team is working to increase customer satisfaction and improve the quality of the product which will have an effect of increasing sales to existing customers and greater referrals. A new IT services division is set to launch in the next quarter.

Due to the revision in our pricing policy, LeaseSoft license value in APAC is in the range of \$1.0 to \$2.0 million, without factoring in services maintenance and implementation fees. Normally, NetSol negotiates 20-25% yearly maintenance contracts with customers. A number of large leasing companies will be looking to renew legacy applications. This places NetSol in a very strong position to capitalize on any upturn in IT spending by these companies. As the Company continues to sell more of these licenses, management believes it is possible that the margins could increase to upward of 60%.

During the nine months ended March 31, 2008, NetSol PK was awarded the contract for the implementation of the Motor Vehicle Registration System (MVRS) for all the 34 districts of the province of Punjab, Pakistan, with successful implementation completed in 16 districts of the Province. In addition, a major automotive captive in Australia signed a contract to license LeaseSoft's Retail Finance Solution, which comprises of Credit Application Processing System (CAP) and Contract Management System (CMS), as well as its Wholesale solution, Wholesale Finance System (WFS). In addition to these modules, NetSol PK will provide software customization, system implementation, and ongoing maintenance and support services to this client. In addition, a major automotive captive in China and Hong Kong went live with our LeaseSoft Solution. A major contract was signed with one of the largest Leasing companies in Saudi Arabia for LeaseSoft. This contract marks NetSol's entry into the lucrative Middle East region. NetSol also won a contract to design and implement a Hospital Management Systems (HMS) for a major public sector hospital. In addition, NetSol won a contract with a leading bank in Pakistan to provide Basel II advisory services. These opportunities for NetSol represent new business sector verticals for the Company.

Our joint-venture, NetSol-TiG continues to grow. During the current period ten new resources were added for a total of 130 dedicated to the joint-venture projects. In addition, two new projects in the United States of America were signed and Innovation Group's release management of five different countries has recently been given to our Extended Innovation ("EI") division which works with the joint-venture.

The gross profit was \$15,135,770 in the nine months ending March 31, 2008 as compared with \$10,261,436 for the same quarter of the previous year for an increase of 47.5% or \$4,874,334. The gross profit percentage for the nine months increased approximately 8% to 58% from 50% in the nine months ended March 31, 2007. The cost of sales was \$10,990,750 in the current period compared to \$10,444,211 in the comparable period of fiscal 2007. As a percentage of sales, it decreased 8% from 50% for the nine months ended March 31, 2007 to 42% in the current period. Salaries and consultant fees increased 11% or \$734,137 from \$6,608,606 in the prior comparable period to \$7,342,743, as a percentage of sales; it decreased 3.8% from 31.9% in the prior comparable period to 28.1% in the current period. The Company has added several new business verticals in Pakistan hiring the best talent in these specialized areas. It takes between 18-24 months for these new business units to fully develop their offerings and begin generating revenues. Several of these units are now producing revenues, the rest of the divisions are anticipated to start generating revenues in the next two quarters. The gross profit margin is expected to continue to improve as the

integration of both the operations in Horsham, UK and Burlingame, US are fully integrated and cost savings are achieved. The Company has invested heavily in its infrastructure, both in people and equipment during the current fiscal year as it situated itself for increased growth organically and from the acquisitions of NTE in February 2005 and NTNA in June 2006.

Operating expenses were \$9,702,930 for the nine months ending March 31, 2008 as compared to \$9,503,983, for the corresponding period last year for a slight increase of \$198,947. As a percentage of sales, it decreased 8.7% from 45.9% to 37.1%. Depreciation and amortization expense amounted to \$1,422,181 and \$1,389,704 for the nine months ended March 31, 2008 and 2007, respectively. Combined salaries and wage costs were \$2,758,434 and \$2,914,707 for the comparable periods, respectively, or a decrease of 5% or \$156,273 from the corresponding period last year. As a percentage of sales, these costs decreased 3.5% from 14.0% to 10.5%. General and administrative expenses were \$2,287,693 and \$2,202,182 for the nine months ended March 31, 2008 and 2007, respectively, an increase of \$85,511 or 4%. As a percentage of sales, these expenses were 8.76% in the current period compared to 10.64% in the comparable period last fiscal year.

Selling and marketing expenses were \$2,817,908 and \$2,105,920, in the nine months ended March 31, 2008 and 2007, respectively, reflecting the growing sales activity of the Company. Although this reflects a 34% increase or \$711,988, as a percentage of sales it decreased 0.62% to 10.79% from 10.17%. Professional services expense decreased 47% to \$413,437 in the nine months ended March 31, 2008, from \$774,203 in the corresponding period last year.

Income from operations was \$5,432,840 compared to \$757,453 for the nine months ended March 31, 2008 and 2007, respectively. This represents an increase of \$4,675,387 for the nine months compared with the comparable period in the prior year. As a percentage of sales, net income from operations was 20.79% in the current fiscal year compared to 3.66% in the prior period.

Net income was \$5,162,140 compared to net loss of \$6,177,708 for the nine months ended March 31, 2008 and 2007, respectively. This is an increase of \$11,339,848 compared to the prior year. The current fiscal period amount includes a net reduction of \$1,756,509 compared to \$1,374,081 in the prior period for the 49.9% minority interest in Connect, and NetSol-TiG owned by another party, and the 39.11%/37.21% minority interest in NetSol PK. During the prior nine months ended March 31, 2007, the Company recognized \$2,208,334 in beneficial conversion feature expense, \$2,803,691 of amortized costs of debt and \$180,890 of liquidation damages related to the financing done in June 2006. There were no such non-cash expenses in the current period. In the current period, a gain on the sale of some of the Parent's shares in NetSol PK of \$1,240,808 in other income was recognized. Interest expense was \$544,597 in the current nine months as compared to \$543,342 in the comparable period. Net income per share, basic and diluted, was \$0.21, as compared to net loss per share, basic of \$0.36 and diluted of \$0.35 for the nine months ended March 31, 2008 and 2007.

The net EBITDA income was \$8,038,995 compared to loss of \$3,424,338 after amortization and depreciation charges of \$2,285,985 and \$2,083,407, income taxes of \$46,272 and \$126,620, and interest expense of \$544,597 and \$543,342, respectively. With the addition of the non-cash charge for the amortized costs of debt of \$2,803,691 and the beneficial conversion feature expense of \$2,208,334 the adjusted income would be \$1,587,687 for the nine months ended March 31, 2007. The EBITDA earning per share, basic and diluted was \$0.34 and \$0.35, respectively, for the nine months ended March 31, 2008 and the adjusted pro forma EBITDA earnings per share, basic and diluted, was \$0.09 for the nine months ended March 31, 2007. Although the net EBITDA income is a non-GAAP measure of performance, we are providing it because we believe it to be an important supplemental measure of our performance that is commonly used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry. It should not be considered as an alternative to net income, operating income or any other financial measures calculated and presented, nor as an alternative to cash flow from operating activities as a measure of our liquidity. It may not be indicative of the Company's historical operating results nor is it intended to be predictive of potential future results.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position was \$4,848,513 at March 31, 2008 compared to \$3,382,970 at March 31, 2007.

Net cash provided by operating activities amounted to \$572,229 for the nine months ended March 31, 2008, as compared to cash used of \$128,201 for the comparable period last fiscal year. The major change was the increase in accounts receivable, the increase in other current assets, which includes the "Revenues in excess of billings" due to several large contracts signed and progress on the contracts is over the amount that can be billed per the contract terms and the decrease in accounts payable which includes the Unearned Revenues representing the increase in maintenance contracts.

Net cash used by investing activities amounted to \$4,963,895 for the nine months ended March 31, 2008, as compared to \$5,365,782 for the comparable period last fiscal year. The Company had net purchases of property and equipment of \$1,985,651 compared to \$1,282,427 for the comparable period last fiscal year. In addition, payments on the

acquisition payable have been made of \$879,007 and \$4,027,753 for the nine months ended March 31, 2008 and 2007, respectively. The increase in intangible assets which represents amounts capitalized for the development of new products was \$2,219,673 and \$2,001,502 for the comparable periods.

Net cash provided by financing activities amounted to \$5,185,625 and \$6,307,026 for the nine months ended March 31, 2008, and 2007, respectively. In the current period the Company sold \$1,500,000 of common stock compared to \$30,093 in the comparable prior period. The nine months ended March 31, 2008 included the cash inflow of \$2,800,917 compared to \$704,250 from the exercising of stock options and warrants. In the current fiscal period, the Company had net use on bank loans, loans and capital leases of \$841,298 as compared to net proceeds of \$874,128 in the comparable period last year and received \$165,000 in loans from officers during the prior fiscal period. In addition, the Company sold shares it held of its subsidiary in Pakistan on the open market and had \$1,765,615 in proceeds from the sale.

The Company plans on pursuing various and feasible means of raising new funding to expand its infrastructure, enhance product offerings and strengthen marketing and sales activities in strategic markets. The strong growth in earnings and the signing of larger contracts with Fortune 500 customers largely depends on the financial strength of NetSol. Generally, the bigger name clients and new prospects diligently analyze and take into consideration a stronger balance sheet before awarding big projects to vendors. Therefore, NetSol would continue its effort to further enhance its financial resources in order to continue to attract large name customers and big value contracts. The company has achieved institutional holdings to over 20% ownership by small cap funds. This is a direct reflection of NetSol's stellar performance in last trailing 12 months. Also the effective marketing campaign in the US capital markets has raised the shareholdings by these funds and market support.

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 have the following capital needs:

- The third and final payment of NTNA will be due in July 08 based on the earn-out formula. This could be in the range of \$1.5 million to \$2.0 million in cash and common stock. This is based on an earn out structure and the Company expects to fund it through internal cash flow;
- Working capital of \$3.0 to \$5.0 million for US and UK business expansion, 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 the Company, we will consider raising capital through equity based financing and, warrant and option exercises. We would, however, use some of our internal cash flow to meet certain obligations as mentioned above. However, the Company is very conscious of the dilutive effect and price pressures in raising equity-based capital.

The methods of raising funds for capital needs may differ based on the following:

- Stock volatility due to market conditions in general and NetSol stock performance in particular. This may cause a shift in our approach to raising new capital through other sources such as secured long term debt.
- Analysis of the cost of raising capital in the U.S., Europe or emerging markets. By way of example only, if the cost of raising capital is high in one market and it may negatively affect the company's stock performance, we may explore options available in other markets.

Should global or other general macro economic factors cause an adverse climate, we would defer new financing and use internal cash flow for capital expenditures.

Item 3. Controls and Procedures

Management, under the supervision and with the participation of the chief executive officer and chief financial officer, conducted an evaluation of the disclosure controls and procedures as defined in rule 13a-15(e) as of the end of the period covered by this interim report on Form 10-QSB. Based on their evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective.

There has been no change in our internal control over financial reporting that occurred in the period covered by this report that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities.

In January 2008, 14,568 shares of common stock were issued to 2 accredited investors as dividends due under the terms of the Series A 7% Cumulative Convertible Preferred Stock. This issuance was made in reliance on an exemption from registration pursuant to rule 4(1) and Regulation S of the Securities Act of 1933, as amended.

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In March 2008, 10,000 shares of common stock were issued to an accredited investor as compensation for services performed. This issuance was made in reliance on an exemption from registration pursuant to rule 4(1) of the Securities Act of 1933, as amended.

In March 2008, 8,750 shares of common stock were issued to an employee as part of the employee's compensation for services performed. The employee is an accredited investor. The issuance was made in reliance on an exemption from registration pursuant to rule 4(1) of the Securities Act of 1933, as amended.

During the quarter ended March 31, 2008, the Company issued 80,600 shares of its common stock for the exercise of options valued at \$136,939.

The repurchases provided in the table below were made during the quarter ended March 31, 2008:

| 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 |
| January 2008 | - | \$ - | - | - |
| February 2008 | - | \$ - | - | - |
| March 2008 | 13,600 | \$ 1.89 | 13,600 | 986,400 |

(1) On March 24, 2008, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 1,000,000 of its shares of common stock over the next 6 months. The shares are to be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission Of Matters To A Vote Of Security Holders

None

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO)

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO)

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO)

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Reports on Form 8-K.

- a) On February 13, 2008, NetSol Technologies, Inc. filed a current report containing the contents of its press release announcing the results of operations and financial conditions for the quarter ended December 31, 2007.
- b) On March 24, 2008, NetSol Technologies, Inc. filed a current report containing the contents of its press release announcing the adoption of a stock repurchase program permitting the Company to purchase up to 1,000,000 shares of its common stock .

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETSOL TECHNOLOGIES, INC.

Date: May 13, 2008

/s/ Najeeb Ghauri

NAJEEB GHAURI
Chief Executive Officer

Date: May 13, 2008

/s/ Tina Gilger

TINA GILGER
Chief Financial Officer