

NETSOL TECHNOLOGIES INC  
Form 10-Q  
February 02, 2012  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011

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)

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Small Reporting Company

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

Yes  No

The issuer had 57,226,355 shares of its \$.001 par value Common Stock and no shares of Series A 7% Cumulative Convertible Preferred Stock issued and outstanding as of January 31, 2012.

## NETSOL TECHNOLOGIES, INC.

## INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of December 31, 2011 and as of June 30, 2011</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Six Months Ended December 31, 2011 and 2010</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2011 and 2010</u>	<u>5</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis or Plan of Operation</u>	<u>24</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>42</u>
<u>Item 4. Controls and Procedures</u>	<u>42</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>43</u>
<u>Item 1A. Risk Factors</u>	<u>43</u>
<u>Item 2. Unregistered Sales of Equity and Use of Proceeds</u>	<u>43</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>44</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	<u>44</u>
<u>Item 5. Other Information</u>	<u>44</u>
<u>Item 6. Exhibits</u>	<u>44</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

ASSETS	As of December 31, 2011	As of June 30, 2011
Current assets:		
Cash and cash equivalents	\$ 4,723,366	\$ 4,172,802
Restricted Cash	2,703,618	5,700,000
Accounts receivable, net	12,209,500	15,062,503
Revenues in excess of billings	9,553,286	7,601,230
Other current assets	2,144,031	2,053,904
Total current assets	31,333,801	34,590,439
Property and equipment, net	16,919,342	16,014,461
Intangible assets, net	28,071,966	25,602,195
Goodwill	9,653,330	9,439,285
Total assets	\$ 85,978,439	\$ 85,646,380
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,935,799	\$ 4,730,027
Current portion of loans and obligations under capitalized leases	4,413,779	7,062,535
Other payables	103,226	103,226
Unearned revenues	3,296,324	2,653,460
Convertible notes payable , current portion	-	2,745,524
Loans payable, bank	2,217,295	2,319,378
Common stock to be issued	125,525	400,700
Total current liabilities	15,091,948	20,014,850
Obligations under capitalized leases, less current maturities	245,139	285,472
Convertible notes, payable less current maturities	3,640,128	-
Long term loans; less current maturities	1,798,051	434,884
Total liabilities	20,775,266	20,735,206
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.001 par value; 95,000,000 shares authorized; 56,948,855 & 55,531,855 issued and outstanding as of December 31, 2011 and June 30, 2011	56,949	55,532
Additional paid-in-capital	99,428,924	97,886,492
Treasury stock	(415,425 )	(396,008 )
Accumulated deficit	(35,271,598 )	(34,130,944 )
Stock subscription receivable	(2,031,210 )	(2,198,460 )
Other comprehensive loss	(9,964,572 )	(8,805,922 )
Total NetSol shareholders' equity	51,803,068	52,410,690

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Non-controlling interest	13,400,105	12,500,484
Total stockholders' equity	65,203,173	64,911,174
Total liabilities and stockholders' equity	\$ 85,978,439	\$ 85,646,380

See accompanying notes to these unaudited consolidated financial statements.

Page 3

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2011	2010	2011	2010
Net Revenues:				
License fees	\$ 2,047,855	\$ 3,129,063	\$ 3,123,705	\$ 6,606,856
Maintenance fees	2,121,282	2,023,509	4,158,488	3,693,428
Services	4,436,916	5,272,675	7,552,567	8,528,035
Total revenues	8,606,052	10,425,247	14,834,760	18,828,319
Cost of revenues:				
Salaries and consultants	2,287,803	2,127,280	4,671,214	4,114,168
Travel	254,169	238,776	539,842	470,388
Repairs and maintenance	96,723	71,459	170,917	128,517
Insurance	31,348	31,087	67,216	62,079
Depreciation and amortization	812,510	679,284	1,601,615	1,310,225
Other	421,416	348,859	937,825	591,997
Total cost of revenues	3,903,969	3,496,745	7,988,629	6,677,375
Gross profit	4,702,083	6,928,503	6,846,131	12,150,944
Operating expenses:				
Selling and marketing	735,132	1,002,877	1,435,413	1,486,847
Depreciation and amortization	289,030	267,861	480,704	534,303
Bad debt expense	-	(353 )	192,250	254,279
Salaries and wages	1,152,023	736,898	1,958,587	1,657,162
Professional services, including non-cash compensation	236,911	151,276	423,660	290,361
General and administrative	1,072,483	873,569	1,965,455	2,006,088
Total operating expenses	3,485,579	3,032,128	6,456,069	6,229,041
Income from operations	1,216,504	3,896,375	390,062	5,921,904
Other income and (expenses)				
Loss on sale of assets	(1,633 )	(792 )	(3,274 )	(15,586 )
Interest expense	(158,957 )	(291,475 )	(419,164 )	(607,119 )
Interest income	7,264	9,958	40,069	94,419
Gain (loss) on foreign currency exchange transactions	160,125	(400,658 )	39,219	673,236
Share of net loss from equity investment	-	(71,799 )	(100,000 )	(142,236 )
Beneficial conversion feature	(61,441 )	(118,163 )	(74,247 )	(295,574 )
Other expense	(8,988 )	(1,748 )	(16,706 )	(57,301 )
Total other income (expenses)	(63,629 )	(874,677 )	(534,103 )	(350,162 )
Net income (loss) before income taxes	1,152,875	3,021,698	(144,041 )	5,571,741
Income taxes	(7,005 )	(3,168 )	(31,539 )	(11,724 )
Net income (loss) after tax	1,145,870	3,018,530	(175,580 )	5,560,017
Non-controlling interest	(826,303 )	(1,082,792 )	(963,561 )	(2,057,301 )
Net income (loss) attributable to NetSol	319,567	1,935,737	(1,139,141 )	3,502,717
Other comprehensive income (loss):				
Translation adjustment	(1,039,343 )	916,065	(2,013,541 )	440,163
Comprehensive income (loss)	(719,776 )	2,851,802	(3,152,682 )	3,942,880

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Comprehensive income (loss) attributable to non controlling interest	(437,533 )	131,912	(854,892 )	(74,976 )
Comprehensive income (loss) attributable to NetSol	\$ (282,243 )	\$ 2,719,890	\$ (2,297,790 )	\$ 4,017,856
Net income (loss) per share:				
Basic	\$ 0.01	\$ 0.04	\$ (0.02 )	\$ 0.08
Diluted	\$ 0.01	\$ 0.04	\$ (0.02 )	\$ 0.08
Weighted average number of shares outstanding				
Basic	56,655,621	48,366,323	56,269,445	43,955,210
Diluted	57,261,550	51,058,140	56,269,445	46,647,027
Amounts attributable to NetSol common shareholders				
Net income / (loss)	\$ 319,567	\$ 1,935,737	\$ (1,139,141 )	\$ 3,502,717

See accompanying notes to these unaudited consolidated financial statements.

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

	For the Six Months Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net (loss) income	\$ (175,580 )	\$ 5,560,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,082,319	1,844,528
Provision for bad debts	192,250	254,279
Share of net loss from investment under equity method	100,000	142,236
Loss on sale of assets	3,274	15,586
Stock issued for interest on notes payable	-	35,808
Stock issued for services	155,500	577,943
Fair market value of warrants and stock options granted	256,479	175,341
Beneficial conversion feature	74,247	295,574
Changes in operating assets and liabilities:		
Increase/ decrease in accounts receivable	3,322,973	(1,863,668)
Increase/ decrease in other current assets	(2,042,183)	(1,377,332)
Increase/ decrease in accounts payable and accrued expenses	(11,801 )	(353,493 )
Net cash provided by operating activities	3,957,478	5,306,820
Cash flows from investing activities:		
Purchases of property and equipment	(2,832,212)	(2,450,222)
Sales of property and equipment	73,048	19,988
Purchase of treasury stock	(19,417 )	-
Purchase of non-controlling interest in subsidiary	-	(180,000 )
Short-term investments held for sale	-	(256,706 )
Investment under equity method	(100,000 )	-
Acquisition, net of cash acquired	(253,192 )	-
Increase in intangible assets	(3,713,090)	(3,127,234)
Net cash used in investing activities	(6,844,863)	(5,994,175)
Cash flows from financing activities:		
Proceeds from sale of common stock	-	2,566,750
Proceeds from the exercise of stock options and warrants	368,000	667,300
Proceeds from convertible notes payable	4,000,000	-
Payments on convertible notes payable	(2,758,330)	-
Restricted cash	2,996,382	-
Proceeds from bank loans	3,866,758	2,588,773
Payments on bank loans	-	(44,455 )
Payments on capital lease obligations & loans - net	(5,123,981)	(3,192,089)
Net cash provided by financing activities	3,348,830	2,586,278
Effect of exchange rate changes in cash	89,119	(118,318 )
Net increase in cash and cash equivalents	550,564	1,780,605
Cash and cash equivalents, beginning of year	4,172,803	4,075,546
Cash and cash equivalents, end of year	\$ 4,723,366	\$ 5,856,150

See accompanying notes to the unaudited consolidated financial statements.





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

For the Six Months  
 Ended December 31,  
 2011          2010

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for:

Interest	\$520,470	\$597,347
Taxes	\$-	\$1,729

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Stock issued against the payment of vendors	\$50,000	\$-
Stock issued for the conversion of Notes Payable	\$-	\$1,900,598

See accompanying notes to the unaudited consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The Company designs, develops, markets, and exports proprietary software products to customers in the automobile 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-K for the year ended June 30, 2011. 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 NetSol Technologies, Inc. and subsidiaries (collectively, the "Company") as follows:

Wholly-owned Subsidiaries

NetSol Technologies North America, Inc. ("NTNA")  
NetSol Technologies Limited ("NetSol UK")  
NetSol Connect (Private), Ltd. ("Connect")  
NetSol-Abraxas Australia Pty Ltd. ("Abraxas")  
NetSol Technologies Europe Limited ("NTE")  
NTPK (Thailand) Co. Limited ("NTPK Thailand")  
Vrooz, Inc. ("Vrooz")

Majority-owned Subsidiaries

NetSol Technologies, Ltd. ("NetSol PK")  
NetSol Innovation (Private) Limited ("NetSol Innovation")  
Virtual Lease Services Holdings Limited ("VLSH")  
Virtual Lease Services Limited ("VLS")  
Hanover Asset Finance (Ireland) Limited ("HAFL")

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

NOTE 2 – ACCOUNTING POLICIES

Use of Estimates

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

#### New Accounting Pronouncements

In December 2011, the FASB issued guidance on offsetting (netting) assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The new guidance is effective for annual periods beginning after January 1, 2013.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is less than its carrying amount, the two-step goodwill impairment test is not required. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted.

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

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. The new guidance is effective for annual periods beginning after December 15, 2011. In December 2011, the FASB issued a deferral of certain portion of this guidance.

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance is effective for annual periods beginning after December 15, 2011.

#### NOTE 3 – ACQUISITION

On October 4, 2011 NetSol Technologies Europe Limited (“NTE”), a wholly owned subsidiary of the Company, entered into an agreement with Investec Asset Finance PLC (“Investec”) a UK corporation, in which the Company obtained a 51% controlling interest in a newly-formed entity, Virtual Lease Services Holdings Limited (“VLSH”), which in turn acquired a 100% interest in Virtual Lease Services Limited (“VLS”). The purchase price paid in this transaction was entirely in the form of cash in the amount of \$1,008,859.

At the time of acquisition the fair value of assets and liabilities acquired were as follows:

Cash	\$755,667
Accounts Receivable	469,970
Fixed Assets	200,579
Customer List	248,320
Technology	242,702
Liabilities	(330,071 )
Noncontrolling interest	(792,351 )
Net Assets Acquired	794,815
Proceeds	1,008,859
Goodwill	\$214,044

The acquisition of VLS is in alignment with the Company’s strategic plans and contributes to the continued expansion into technology markets through membership and practice acquisitions.

The amounts of acquired entities revenue and net income included in the Company’s consolidated statements of operations for the six months ended December 31, 2011, and the revenue and net income (loss) of the combined entity had the date of acquisitions been July 1, 2011, or July 1, 2010, are as follows:

	Revenue	Net income (loss)
Actual for six months from date of acquisition to December 31, 2011	\$ 14,834,760	\$ (175,580 )

Supplemental pro forma from Jul 1, 2011 through Dec 31-2011	\$15,317,960	\$ (148,788 )
Supplemental pro forma from Jul 1, 2010 through Dec 31-2010	\$19,895,598	\$ 5,664,154

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

## NOTE 4 – EARNINGS/(LOSS) PER SHARE:

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

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

For the six months ended December 31, 2011	Net Loss	Shares	Per Share
Basic loss per share:	\$ (1,139,141 )	56,269,445	\$ (0.02 )
Dividend to preferred shareholders	-		
Net income available to common shareholders			
Effect of dilutive securities *			
Stock options			
Warrants			
Diluted loss per share	\$ (1,139,141 )	56,269,445	\$ (0.02 )
For the six months ended December 31, 2010	Net Income	Shares	Per Share
Basic income per share:	\$ 3,502,717	43,955,210	\$ 0.08
Dividend to preferred shareholders	-		\$ -
Net income available to common shareholders			
Effect of dilutive securities			
Stock options		1,271,378	
Warrants		1,420,439	
Diluted income per share	\$ 3,502,717	46,647,027	\$ 0.08

\* As there is a loss, these securities are anti-dilutive. The basic and diluted loss per share is the same for the six months ended December 31, 2011

## NOTE 5 – OTHER COMPREHENSIVE INCOME &amp; FOREIGN CURRENCY:

The accounts of NetSol UK, NTE, VLSH and VLS use the British Pound; HAFL uses the Euro; NetSol PK, Connect, and NetSol Innovation use Pakistan Rupees; NTPK Thailand uses Thai Baht and Abraxas uses the Australian dollar as the functional currencies. NetSol Technologies, Inc., and its subsidiaries, NTNA and Vroozzi, 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 are classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet were \$9,964,572 and \$8,805,922 as of December 31, 2011 and June 30, 2011 respectively. During the six months ended December 31, 2011 and 2010, comprehensive loss in the consolidated statements of operations included translation gain of \$610,810 and \$515,139 respectively.





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

## NOTE 6 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of December 31 2011	As of June 30 2011
Prepaid Expenses	\$ 204,624	\$ 245,194
Advance Income Tax	700,405	726,979
Employee Advances	53,750	53,404
Security Deposits	193,206	161,263
Tender Money Receivable	136,328	133,166
Other Receivables	534,451	535,597
Other Assets	321,267	198,301
Total	\$ 2,144,031	\$ 2,053,904

## NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment, net, consisted of the following:

	As of December 31 2011	As of June 30 2011
Office furniture and equipment	\$ 1,450,058	\$ 1,179,993
Computer equipment	14,558,695	13,463,560
Assets under capital leases	2,133,802	2,024,282
Building	2,234,866	2,337,758
Land	2,141,444	2,240,036
Capital work in progress	3,473,202	2,659,750
Autos	617,623	794,617
Improvements	235,784	162,896
Subtotal	26,845,474	24,862,892
Accumulated depreciation	(9,926,132 )	(8,848,431 )
	\$ 16,919,342	\$ 16,014,461

For the six months ended December 31, 2011 and 2010, depreciation expense totaled \$1,374,116 and \$765,004 respectively. Of these amounts, \$953,898 and \$537,424 respectively, are reflected in cost of goods sold.

The Company's capital work in progress consists of ongoing enhancements to its facilities and infrastructure as necessary to meet the Company's expected long term growth needs. The Company recorded capitalized interest of \$155,739 and \$278,308 as of December 31, 2011 and June 30, 2011, respectively.

## NOTE 8 - INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of December 31 2011	As of June 30, 2011
Product licenses	\$ 40,755,934	\$ 38,226,400
Customer lists	6,052,377	5,804,057
Technology	242,702	-
	47,051,013	44,030,457
Accumulated amortization	(18,979,047 )	(18,428,262)
Intangible assets, net	\$ 28,071,966	\$ 25,602,195

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

(A) Product Licenses

Product licenses include internally-developed original license issues, renewals, enhancements, copyrights, trademarks, and trade names. Product licenses include unamortized software development and enhancement costs of \$21,801,891. Product licenses are being amortized on a straight-line basis over their respective lives, which is currently a weighted average of approximately 8 years. Amortization expense for the six-months ended December 31, 2011 and 2010 was \$647,717 and \$828,578, respectively.

(B) Customer Lists

On October 31, 2008, the Company entered into an agreement to purchase the rights to the customer list of Ciena Solutions, LLC, a California limited liability company (“Ciena”). Under the terms of the agreement, the total consideration for these rights included an initial payment of \$350,000 (plus interest of \$2,963), and deferred consideration to be paid in cash and the Company’s common stock based on the operational results of Ciena, and certain other factors, over a four-year fiscal period. Each fiscal period is measured from July 1 to June 30 with fiscal period one being the period from July 1, 2008 to June 30, 2009. No other assets or liabilities were acquired by the Company as a result of this transaction.

As a result of operational losses of Ciena in the first three fiscal periods, 2009, 2010 and 2011, respectively, the first three annual deferred consideration installment payments were determined to be zero.

On October 4, 2011, the company entered into an agreement to acquire a UK based company “Virtual Leasing Services Limited” through one of its subsidiaries. As a result of this acquisition, the Company recorded \$248,320 of an existing customer list.

Customer lists are being amortized based on a straight-line basis, which approximates the anticipated rate of attrition, which is currently a weighted average of approximately 5 years. Amortization expense for the six-months ended December 31, 2011 and 2010 was \$59,847 and \$250,930, respectively.

(C) Technology

On October 4, 2011, the company entered into an agreement to acquire a UK based company, Virtual Leasing Services Limited, through one of its subsidiaries. As a result of this acquisition, the Company recorded \$242,702 of existing technology. Technology assets are being amortized on a straight-line basis over their respective lives, which is currently a weighted average of approximately 5 years. Amortization expense for the six-months ended December 31, 2011 and 2010 was nominal.

(D) Future Amortization

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

Year ended;	
December 31, 2012	1,767,032
December 31, 2013	1,598,077
December 31, 2014	1,390,622
December 31, 2015	931,406

December 31, 2016	931,406
Thereafter	21,453,423

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

## NOTE 9 – GOODWILL

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

	As of December 31, 2011	As of June 30, 2011
Asia Pacific	\$ 1,303,372	\$ 1,303,372
Europe	3,685,858	3,471,813
USA	4,664,100	4,664,100
<b>Total</b>	<b>\$ 9,653,330</b>	<b>\$ 9,439,285</b>

On October 4, 2011, the Company entered into an agreement to acquire a UK based company, Virtual Leasing Services Limited, through one of its subsidiaries. As a result of this acquisition, the Company recorded goodwill of \$214,044.

The Company has determined that there was no impairment of the goodwill for either period presented.

## NOTE 10 – INVESTMENT UNDER EQUITY METHOD

On April 10, 2009, the Company entered into an agreement to form a joint venture with the Atheeb Trading Company, a member of the Atheeb Group (“Atheeb”). The joint venture entity Atheeb NetSol Saudi Company Ltd. is a company organized under the laws of the Kingdom of Saudi Arabia. The venture was formed with an initial capital contribution of \$268,000 by the Company and \$266,930 by Atheeb with a profit sharing ratio of 50.1:49.9, respectively. The final formation of the company was completed on March 7, 2010.

Net book value at June 30, 2010	\$200,506
Net loss for the year ended June 30, 2011	(542,929)
NetSol's share (50.1%)	(272,007)
Loss adjusted against investment	(200,506)
Net book value at June 30, 2011	\$0
Investment during the period	100,000
Net loss for the six months ended December 31, 2011	(239,425)
NetSol's share (50.1%)	(119,952)
Unabsorbed losses brought forward	(51,731 )
Total loss	(171,683)
Loss adjusted against investment	(100,000)
Net book value at December 31, 2011	\$0



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

## NOTE 11 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of December 31 2011	As of June 30 2011
Accounts Payable	\$ 1,192,350	\$ 1,348,453
Accrued Liabilities	2,640,634	2,364,233
Accrued Payroll	163,091	148,565
Accrued Payroll Taxes	377,732	216,485
Interest Payable	232,825	380,808
Deferred Revenues	32,066	32,066
Taxes Payable	297,101	239,417
Total	\$ 4,935,799	\$ 4,730,027

## NOTE 12 - DEBTS

## (A) LOANS AND LEASES PAYABLE

Notes payable consisted of the following:

Name	As of December		
	31 2011	Current Maturities	Long-Term Maturities
Habib Bank Line of Credit	\$ 2,703,618	2,703,618	-
HSBC Loan	1,308,210	341,644	966,566
Term Finance Facility	1,247,228	415,743	831,485
Subsidiary Capital Leases	1,197,913	952,774	245,139
Lease abandonment liability	-	-	-
	\$ 6,456,969	\$4,413,779	\$2,043,190

Name	As of June 30		
	2011	Current Maturities	Long-Term Maturities
D&O Insurance	\$ 21,429	\$21,429	\$-
Habib Bank Line of Credit	5,404,608	5,404,608	-
Bank Overdraft Facility	254,502	254,502	-
Term Finance Facility	869,767	434,883	434,884
Subsidiary Capital Leases	1,232,585	947,113	285,472
	\$ 7,782,891	\$7,062,535	\$720,356

The Company finances Directors' and Officers' ("D&O") liability insurance as well as Errors and Omissions ("E&O") liability insurance, for which the total balances are renewed on an annual basis and as such are recorded in current maturities. The interest rate on the insurance financing was 0.49% as of December 31, 2011 and June 30, 2011. Interest paid during the period ended December 31, 2011 and 2010 was nominal.

In April 2008, the Company entered into an agreement with Habib American Bank to secure a line of credit to be collateralized by Certificates of Deposit held at the bank. The interest rate on this line of credit is variable and was 1.85% and 2% as of December 31, 2011 and June 30, 2011, respectively. Interest expense during the six months ended December 31, 2011 and 2010 was \$32,131 and \$64,718, respectively. During the quarter ended September 30, 2011, the company redeemed certificate of deposits worth \$3 million. Consequently, the line of credit was also reduced to \$2,703,618.



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

During the year ended June 30, 2008, the Company's subsidiary, NTE entered into an overdraft facility with HSBC Bank plc whereby the bank would cover any overdrafts up to £200,000, or approximately \$310,000. The annual interest rate is 3.25% over the bank's sterling base rate, which was 5.00% as of December 31, 2011 and June 30, 2011, respectively.

In October 2011, the Company's subsidiary, NTE, entered into a loan agreement with HSBC Bank to finance the acquisition of 51% of controlling interest in Virtual Leasing Services Limited. HSBC Bank guaranteed the loan up to a limit of £1,000,000, or approximately \$1,550,000, for a period of 5 years with monthly payments of £18,420, or \$28,551 approximately. The interest rate was 4% which is 3.5% above bank sterling base rate. The subsidiary has used this facility up to £846,409, or \$1,308,210, of which £625,366, or \$966,566, was shown as long term and remaining £221,043, or \$341,644, as current maturity. Interest expense, for the period ended December 31, 2011, was £8,250, or \$12,787.

The Company's subsidiary, NetSol PK, entered into a term finance facility from Askari Bank to finance the construction of a new building. The total amount of the facility is Rs. 200,000,000 or approximately \$2,217,295 (secured by the first charge of Rs. 580 million over the land, building and equipment of the company). The interest rate is 2.75% above the six-month Karachi Inter Bank Offering Rate. As on June 30, 2011, the subsidiary had used Rs. 75,000,000, or approximately \$851,112, of which \$425,556 was shown as long term liabilities, and the remainder of \$425,556 as current maturity. As of the six months ended December 31, 2011, the Company paid back the installment of Rs. 12,500,000 reducing the outstanding principal amount to Rs. 62,500,000 or approximately \$709,260. The company also availed another Rs. 50,000,000 increasing the outstanding balance to Rs. 112,500,000 or approximately \$1,247,228, of which \$831,485 is shown as long term liabilities and the remainder of \$415,743 as current maturity.

The Company leases various fixed assets under capital lease arrangements expiring in various years through 2015. 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 six months ended December 31, 2011 and 2010.

Following is the aggregate minimum future lease payments under capital leases as of December 31, 2011 and June 30, 2011:

	As of December 31 2011	As of June 30 2011
Minimum Lease Payments		
Due FYE 12/31/12	\$ -	\$ 1,010,836
Due FYE 12/31/13	1,007,127	209,260
Due FYE 12/31/14	209,994	115,346
Due FYE 12/31/15	61,121	-
Due FYE 12/31/16	-	-
Total Minimum Lease Payments	1,278,242	1,335,442
Interest Expense relating to future periods	(80,329 )	(102,856 )
Present Value of minimum lease payments	1,197,912	1,232,585
Less: Current portion	(952,774 )	(947,113 )
Non-Current portion	\$ 245,138	\$ 285,472

Following is a summary of fixed assets held under capital leases as of December 31, 2011 and June 30, 2011:

	As of December 31 2011	As of June 30 2011
Computer Equipment and Software	\$ 623,476	\$ 518,911
Furniture and Fixtures	765,974	769,106
Vehicles	442,136	434,049
Building Equipment	302,216	302,216
Total	2,133,802	2,024,282
Less: Accumulated Depreciation	(1,008,161 )	(807,562 )
Net	\$ 1,125,641	\$ 1,216,720

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

Interest expense for the six months ended December 31, 2011 and 2010 was \$36,906 and \$16,332, respectively.

(B) LOANS PAYABLE - BANK

The Company's subsidiary, NetSol PK, has a loan with a bank, secured by the Company's assets. This loan consists of the following as of December 31, 2011 and June 30, 2011:

For the period ended December 31, 2011:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE	BALANCE USD
Export Refinance	Every 6 months	11.00%	\$ 2,217,295
<b>Total</b>			<b>\$ 2,217,295</b>

For the year ended June 30, 2011:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE	BALANCE USD
Export Refinance	Every 6 months	11.00%	\$ 2,319,378
<b>Total</b>			<b>\$ 2,319,378</b>

Interest expense for the six months ended December 31, 2011 and 2010 was \$121,177 and \$105,797, respectively.

NOTE 13 – OTHER PAYABLE AND COMMON STOCK TO BE ISSUED

On June 30, 2006, the Company acquired McCue Systems, Inc. ("McCue"), a California corporation (subsequently renamed as NetSol Technologies North America, Inc.) The total purchase price was \$7,080,385, including \$3,784,635 of cash and 1,712,332 shares of the Company's common stock. Of the total purchase price, the accompanying consolidated financial statements include certain amounts payable to McCue shareholders that have not been located as of the date of this report.

As of the period-ended December 31, 2011 and June 30, 2011, the remaining cash due of \$103,226 is shown as "Other Payable" and the remaining stock to be issued of 46,704 shares at an average price of \$1.89 is shown in "Common stock to be issued" in the accompanying consolidated financial statements.

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

## NOTE 14 – CONVERTIBLE NOTES PAYABLE

The net outstanding balance of convertible notes as of December 31, 2011 and June 30, 2011 is as follows:

Issue Date	Balance net of BCF @ 12/31/11	Current Portion	Long Term	Maturity Date
Sep-11	3,640,128	-	3,640,128	Sep-13
Total	3,640,128	-	3,640,128	

  

Issue Date	Balance net of BCF @ 6/30/11	Current Portion	Long Term	Maturity Date
Jul-08	2,745,524	2,745,524	-	Jul-11
Total	2,745,524	2,745,524	-	

For the periods ended December 31, 2011 and June 30, 2010, the interest accrued on convertible notes was \$198,762 and \$248,250, respectively.

## (A) 2008 CONVERTIBLE DEBT

In July 2008, the Company issued \$6,000,000 of 7% convertible debt maturing in 3 years (the “2008 Notes”), with a conversion price of \$3.00 per share.

In January 2009, the 2008 Notes were amended to remove certain anti-dilution protection provisions and participation rights in future filings in exchange for a reduction in the conversion rate to \$0.78, and \$1,000,000 in cash, payable to the debt holders in 4 quarterly installments. Pursuant to the terms of the amendment, the Company recorded a beneficial conversion feature (“BCF”) in the amount of \$230,769 which is being amortized as a component of interest expense over the maturity period. The related liability of \$1,000,000 was recorded as a component of interest expense for the year-ended June 30, 2009.

In August 2009, the Company amended the 2008 Notes by reducing the conversion rate to \$0.63, and recorded an additional BCF of \$715,518, which is being amortized as a component of interest expense over the maturity period. During the year-ended June 30, 2010, Holders of the 2008 Notes elected to convert principal and interest due thereon into a total of 2,513,112 shares of common stock. These conversions reduced the total principal of the 2008 Notes to \$4,450,000. During the year ended June 30, 2011, Holders of the 2008 Note further elected to convert the principal and interest due thereon into a total of 2,744,042 shares of common stock. These conversions reduced the principal of the 2008 Note to \$2,758,330 and unamortized balance of BCF was \$12,806 as of June 30, 2011.

During the six months ended December 31, 2011, the remaining balance of 2008 Note was fully paid along with interest due thereon out of the proceeds of a new 2011 Convertible Note.

(B) 2011 CONVERTIBLE DEBT

On September 13, 2011, NetSol Technologies, Inc. entered into a purchase agreement to sell convertible notes with a total principal value of \$4,000,000 and warrants to purchase shares of common stock to an investment fund managed by CIM Investment Management Limited and another accredited investor. The notes have a 2 year maturity date and are convertible into shares of common stock at the initial conversion price of \$0.895 per share. The warrants entitle the investors to acquire a total of 1,408,451 shares of common stock, have a 5 year term, and have an initial exercise price of \$0.895 per share. The proceeds of the Convertible note were assigned between warrants and convertible note per ASC 470-20. The Company recorded \$401,648 capitalized financing cost and discount of \$19,665 on shares to be issued upon conversion of note into equity. This capitalized finance cost and discount will be amortized over the life of the note.

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

NOTE 15 - STOCKHOLDERS' EQUITY

(A) TREASURY STOCK

On November 11, 2011, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 2,500,000 of its shares of common stock over the following 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. The Company has repurchased 44,300 shares of common stock from open market against cash consideration of \$19,417 during the period ended December 31, 2011. The balance as of December 31, 2011 and June 30, 2011 was \$415,425 and \$396,008 respectively.

(B) SHARES ISSUED FOR SERVICES TO RELATED PARTIES

During the six months ended December 31, 2011 and 2010, the Company issued a total of 210,000 and 420,000 shares of restricted common stock for services rendered by the officers of the Company. These shares were valued at the fair market value of \$135,075 and \$476,700 respectively.

The company recorded an expense of \$109,500 and \$325,500 against the services rendered by officers during the six months ended December 31, 2011 and 2010.

During the six months ended December 31, 2011 and 2010, the Company issued a total of 120,000 and 60,000 shares of restricted common stock for services rendered by the independent members of the Board of Directors as part of their board compensation. These shares were valued at the fair market value of \$154,400 and \$66,600 respectively.

The company recorded an expense of \$40,000 and \$66,600 for services rendered by the independent members of the Board of Directors as part of their board compensation during the six months ended December 31, 2011 and 2010.

During the period ended December 31, 2011 and 2010, the Company issued a total of nil and 139,881 shares of its common stock to employees as required according to the terms of their employment agreements valued at nil and \$33,300, respectively.

(C) SHARE-BASED PAYMENT TRANSACTIONS

During the period ended December 31, 2011, and June 30, 2011, the Company issued a total of 137,000 and 337,857 shares of its common stock for provision of services to unrelated consultants valued at \$66,200 and \$152,543, respectively.

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

## NOTE 16 - INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

Common stock purchase options and warrants consisted of the following:

## OPTIONS:

Issued by the Company	# of shares	Exercise Price	Aggregated Intrinsic Value
Outstanding and exercisable, June 30, 2010	7,706,917	0.30 to \$5.00	\$ -
Granted	1,471,000	0.65 to \$1.25	
Exercised	(1,771,000)	0.65 to \$1.25	
Expired / Cancelled	(487,600 )		
Outstanding and exercisable, June 30, 2011	6,919,317	0.30 to \$5.00	\$ 1,637,459
Granted	2,150,000	0.4 to \$0.75	
Exercised	(950,000 )	0.40 to \$1.25	
Expired / Cancelled			
Outstanding and exercisable, December 31, 2011	8,119,317	0.30 to \$5.00	\$ (752,980 )

## WARRANTS:

Outstanding and exercisable, June 30, 2010	4,763,319	1.65 to \$3.70	\$ -
Granted			
Exercised	(3,879,028)	0.31 to 1.68	
Expired	(706,061 )	\$3.70	
Outstanding and exercisable, June 30, 2011	178,230	0.31 to \$3.70	\$ 219,119
Granted	1,408,451	\$0.895	
Exercised			
Expired	(25,000 )	1.85 to \$3.70	
Outstanding and exercisable, December 31, 2011	1,561,681	0.31 to \$0.895	\$ 16,855

The average life remaining on the options and warrants as of December 31, 2011 is as follows:

Exercise Price	Number Outstanding and	Weighted Average Remaining	Weighted Ave Exercise
----------------	------------------------	----------------------------	-----------------------

	Exercisable	Contractual Life	Price
<b>OPTIONS:</b>			
Issued by the Company			
\$0.01 - \$0.99	2,706,000	5.93	0.70
\$1.00 - \$1.99	1,933,317	3.64	1.89
\$2.00 - \$2.99	2,830,000	3.33	2.70
\$3.00 - \$5.00	650,000	2.04	4.38
Totals	8,119,317	4.17	1.97
<b>WARRANTS:</b>			
\$0.31 - \$0.895	1,561,681	4.55	0.84
Totals	1,561,681	4.55	0.84

All options and warrants granted are vested and are exercisable as of December 31, 2011.



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

(A) INCENTIVE AND NON-STATUTORY STOCK OPTION PLANS

The Company maintains several Incentive and Non-Statutory Stock Option Plans (“Plans”) for its employees and consultants. Options granted under these Plans to an employee of the Company become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares are exercisable annually. Options are not exercisable, in whole or in part, prior to one (1) year from the date of grant unless the Board specifically determines otherwise, as provided.

Two types of options may be granted under these Plans: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

OPTIONS

During the quarter ended September 30, 2011, the Company granted 330,000 options to two employees with an exercise price of \$0.50 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded \$63,763 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 3.13%  
Expected life 1 month  
Expected volatility 100%

During the quarter ended December 31, 2011, the Company granted 200,000 options to one employee with an exercise price of \$0.50 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded \$13,797 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 0.3%  
Expected life 1 month  
Expected volatility 99.85%

During the quarter ended December 31, 2011, the Company granted 320,000 options to one employee with an exercise price of \$0.40 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded \$24,890 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 0.3%  
Expected life 1 month

Expected volatility 83.08%

During the quarter ended December 31, 2011, the Company granted 1,300,000 options to three of its officers with an exercise price of \$0.75 per share and an expiration date of 5 Years, vesting quarterly. Using the Black-Scholes method to value the options, the Company will record a total of \$585,241 in compensation expense for these options on quarterly bases out of which \$146,310 was recorded in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.9%

Expected life 5 Years

Expected volatility 213.21%

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

## WARRANTS

During the quarter ended September 30, 2011, the Company entered into an agreement to issue the 2011 Convertible Note together with warrants to purchase 1,408,451 warrants of common stock at an initial exercise price of \$0.895 per share with a life of five years. The fair market value of these warrants was calculated as \$446,480 by using Black Scholes value method. Using this value, the proceeds of Convertible note were allocated between warrants and convertible based on their relative fair values. The company recorded \$401,648 capitalized financing cost which will be amortized over the life of the note.

## (B) EQUITY INCENTIVE PLAN

In May 2011, the shareholders approved the 2011 Equity Incentive Plan (the "2011 Plan") which provides for the grant of equity-based awards, including options, stock appreciation rights, restricted stock awards or performance share awards or any other right or interest relating to shares or cash, to eligible participants. The aggregate number of shares reserved and available for award under the 2011 Plan is 5,000,000 (the Share Reserve). The 2011 Plan contemplates the issuance of common stock upon exercise of options or other awards granted to eligible persons under the 2011 Plan. Shares issued under the 2011 Plan may be both authorized and unissued shares or previously issued shares acquired by the Company. Upon termination or expiration of an unexercised option, stock appreciation right or other stock-based award under the 2011 Plan, in whole or in part, the number of shares of common stock subject to such award again becomes available for grant under the 2011 Plan. Any shares of restricted stock forfeited as described below will become available for grant. The maximum number of shares that may be granted to any one participant in any calendar year may not exceed 500,000 shares. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

## STOCK OPTIONS

Options granted under the 2011 Plan are not generally transferable and must be exercised within 10 years, subject to earlier termination upon termination of the option holder's employment, but in no event later than the expiration of the option's term. The exercise price of each option may not be less than the fair market value of a share of the Company's common stock on the date of grant (except in connection with the assumption or substitution for another option in a manner qualifying under

Section 424(a) of the Internal Revenue Code of 1986, as amended (the Code). Incentive stock options granted to any participant who owns 10% or more of the Company's outstanding common stock (a Ten Percent Shareholder) must have an exercise price equal to or exceeding 110% of the fair market value of a share of our common stock on the date of the grant and must not be exercisable for longer than five years. Options become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The maximum term of any option granted under the 2011 Plan is ten years, provided that an incentive stock option granted to a Ten Percent Shareholder must have a term not exceeding five years.

## PERFORMANCE AWARDS

Under the 2011 Plan, a participant may also be awarded a "performance award," which means that the participant may receive cash, stock or other awards contingent upon achieving performance goals established by the Committee. The Committee may also make "deferred share" awards, which entitle the participant to receive our stock in the future for services performed between the date of the award and the date the participant may receive the stock. The vesting of

deferred share awards may be based on performance criteria and/or continued service with our Company. A participant who is granted a "stock appreciation right" under the Plan has the right to receive all or a percentage of the fair market value of a share of stock on the date of exercise of the stock appreciation right minus the grant price of the stock appreciation right determined by the Committee (but in no event less than the fair market value of the stock on the date of grant). Finally, the Committee may make "restricted stock" awards under the 2011 Plan, which is subject to such terms and conditions as the Committee determines and as are set forth in the award agreement related to the restricted stock. As of December 31, 2011, 19,500 shares have been issued under this plan to non-officers employees.

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

## NOTE 17 – SEGMENT AND GEOGRAPHIC AREAS

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 intracompany 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 six months ended December 31:

	2011	2010
Revenues from unaffiliated customers:		
North America	\$ 1,749,313	\$ 2,231,691
Europe	2,506,234	4,576,771
Asia - Pacific	10,579,213	12,019,857
Consolidated	\$ 14,834,760	\$ 18,828,319
Operating income (loss):		
Corporate headquarters	\$ (1,664,711 )	\$ (1,902,704 )
North America	21,932	324,948
Europe	(112,664 )	2,394,818
Asia - Pacific	2,145,505	5,104,842
Consolidated	\$ 390,062	\$ 5,921,904
Net income (loss) after taxes and before non-controlling interest:		
Corporate headquarters	\$ (2,130,465 )	\$ (2,699,654 )
North America	21,308	310,018
Europe	(13,771 )	2,332,303
Asia - Pacific	1,947,348	5,617,353
Consolidated	\$ (175,580 )	\$ 5,560,017
Identifiable assets:		
Corporate headquarters	\$ 14,077,314	\$ 16,839,002
North America	2,460,475	2,620,231
Europe	6,884,161	6,003,011
Asia - Pacific	62,556,489	56,101,924
Consolidated	\$ 85,978,439	\$ 81,564,168
Depreciation and amortization:		
Corporate headquarters	\$ 35,353	\$ 307,171
North America	150,023	264,698
Europe	300,783	356,337
Asia - Pacific	1,596,160	916,323
Consolidated	\$ 2,082,319	\$ 1,844,528

Capital expenditures:

Corporate headquarters	\$ -	\$ -
North America	9,348	40,310
Europe	484,485	905
Asia - Pacific	2,338,379	2,409,007
Consolidated	\$ 2,832,212	\$ 2,450,222

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

Net revenues by our various products and services provided for the period ended December 31, are as follows:

	2011	2010
Licensing Fees	\$3,123,705	\$6,606,856
Maintenance Fees	4,158,488	3,693,428
Services	7,552,567	8,528,035
Total	\$14,834,760	\$18,828,319

NOTE 18 – NON-CONTROLLING INTEREST IN SUBSIDIARY

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

SUBSIDIARY	Non Controlling Interest %	Non-Controlling Interest at December 31, 2011
NetSol PK	39.48 %	\$ 11,457,869
NetSol-Innovation	49.90 %	1,169,147
VLS	49.00 %	773,088
Total		\$ 13,400,105

SUBSIDIARY	Non Controlling Interest %	Non-Controlling Interest at June 30, 2011
NetSol PK	39.48 %	\$ 11,531,694
NetSol-Innovation	49.90 %	968,790
Total		\$ 12,500,484

(A) NETSOL TECHNOLOGIES, LIMITED (“NETSOL PK”)

For the six months ended December 31, 2011 and 2010, NetSol Technologies Ltd. (“NetSol PK”) had net income of \$1,847,135 and \$4,356,397. The related non-controlling interest was \$729,249 and \$1,831,429, respectively.

(B) NETSOL INNOVATION (PRIVATE) LIMITED (“NETSOL INNOVATION”)

For the six months ended December 31, 2011 and 2010, NetSol Innovation (Private) Limited (“NetSol Innovation”) had net income of \$501,681 and \$452,648. The related non-controlling interest was \$250,339 and \$225,871, respectively.

(C) VIRTUAL LEASE SERVICES (“VLS”)

For the period ended December 31, 2011, Virtual Lease Services Limited (“VLS”) had a net loss of \$34,052. The related 49% non-controlling interest was \$16,685.



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

NOTE 19 – INCOME TAXES

Our effective tax rates were approximately 21.9% and 0.21% for the six months ended December 31, 2011 and 2010, respectively. Our effective tax rate was lower than the U.S. federal statutory rate due to the fact that our operations are carried out in foreign jurisdictions, which are subject to lower income tax rates. Also, the Company has established a full valuation allowance as management believes it is more likely than not that these assets will not be realized in the future.

NOTE 20 - SUBSEQUENT EVENTS

Independent board members were issued 40,000 shares of common stock against compensation for which expense was recorded in December, 2011.

Officers of the company were issued 25,000 shares of common stock against compensation for which expense was recorded in December, 2011.

Employees of the company were issued 12,500 shares of common stock against compensation for which expense was recorded in December, 2011.

One of the employee of the company exercised options to acquire 200,000 shares of common stock valued at \$100,000.

NETSOL TECHNOLOGIES, INC.

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 December 31, 2011.

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.

NetSol Technologies, Inc. (NasdaqCM: NTWK) (NasdaqDubai: NTWK) is a worldwide provider of IT and enterprise application solutions, NetSol Technologies, Inc. executes its mission of focusing technology on the operational needs of its clients. NetSol's services and solutions enable businesses to streamline their operations and compete more effectively.

The Company is organized into two main revenue areas, consisting of enterprise solutions – NetSol Financial Suite (NFS™) – for the global financing, leasing and lending industry and a portfolio of managed services, including customized application development, systems integration, and business process engineering. In addition, NetSol's solutions portfolio includes the smartOCI™ e-Procurement search engine for SAP SRM users.

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

Founded in 1997, NetSol is headquartered in Calabasas, California. While the Company follows a global strategy for sales and delivery of its portfolio of solutions and services, it continues to maintain regional offices in the San Francisco Bay Area and the corporate headquarters in Calabasas, for North America; the London Metropolitan area for Europe; and Bangkok, Thailand and Lahore, Pakistan for Asia Pacific. The Company continues to maintain services, product and/or sales specific offices in Australia, China, Thailand, the Kingdom of Saudi Arabia and Pakistan and, in any other country, on an as needed basis.

In today's highly competitive marketplace, business executives with labor or services-centric budgetary responsibilities are not just encouraged but, in fact, obliged to engage in "Make or Buy" decision process when contemplating how to support and staff new development, testing, services support and delivery activities. The Company business offerings are aligned as a BestShoring® solutions strategy. Simply defined, BestShoring® is 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® delivers BestSolution™” approach.

NetSol combines domain expertise, not only with competitive cost from its delivery centers and support offices located around the globe, but also with the comfort of localized program and project management while minimizing any implementation risk associated with a single service or delivery center. Our BestShoring® approach, which we consider a unique and cost effective global development model, is leading the way, providing value added solutions for Global Business Services™ through a win-win partnership, rather than the traditional outsourced vendor framework. Our focus on “Solutions” serves to ensure the most favorable pricing while delivering in-depth domain experience. NetSol currently has locations in Bangkok, Beijing, Lahore, the London metropolitan area, the San Francisco Bay Area, and Adelaide to best serve its clients and partners worldwide. This provides NetSol customers with the optimum balance of subject matter expertise, in-depth domain experience, and cost effective labor, all merged into a scalable solution. In this way, “BestShoring® delivers BestSolution™”.

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, Independent System Review, Outsourcing Services and Software Process Improvement Consulting; maintenance and support of existing systems; and, project management.

NETSOL TECHNOLOGIES, INC.

In addition to services, our solution offerings are fashioned to provide a Best Product for Best Solution model. Our offerings include our flagship global solution, NetSol Financial Suite (NFS™). NFS™, a robust suite of five 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 five software applications under NFS™ have been designed and developed for a highly flexible setting and are capable of dealing with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments. Each application is a complete system in itself and can be used independently to address specific sub-domains of the leasing/financing cycle. NFS™ is a result of more than eight years of effort resulting in over 60 modules grouped in five comprehensive applications. These five 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.

The NetSol Financial Suite™ also includes 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. In terms of scalability, NetSol Technologies North America offers the basic product as well as a collection of highly specialized add on modules for systems, portfolios and accrual methods for virtually all sizes and complexities of operations. 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.

Our product offerings and services also include: LeaseSoft Portals and Modules through our European operations; LeasePak 6.0b of our NFS™ product suite; enterprise wide information systems, such as or LRMIS, MTMIS, business intelligence and information security services.

To further bolster NetSol's Solutions capabilities, in October 2008, NetSol acquired Ciena Solutions, a preferred SAP and Business Objects systems integration firm. The Ciena Solutions practice will be integrated into the newly formed wholly owned subsidiary, Vroozi, Inc. This acquisition expanded NetSol's domain and subject matter expertise to include integration and consulting services for the SAP ERP platform as well as intellectual property targeted for the B2B supply chain market.

Vroozi develops innovative e-commerce solutions for all business sizes and industry verticals which help companies search, source, negotiate, and order goods and services from suppliers electronically optimizing organization's procurement and supply chain operations. Vroozi's Business to Business search engine, collaborative commerce, and electronic marketplace applications are deployed On Demand and can integrate seamlessly with major ERP vendor systems such as SAP or deployed independently on the Internet.

Vroozi's first product to market is smartOCI™. SmartOCI™ is a new search engine technology and buy-side content marketplace which provides corporate buyers and shoppers a simple and intuitive user interface to search multiple supplier catalogs simultaneously within the SAP procurement application. SmartOCI™ was officially released to the market in 2011 at the SAP SAPHIRE Conference in Orlando, Florida, targeting approximately 15,000+ SAP customers and has strengthened NetSol's presence in the global SAP Services market.

While the Company follows a global strategy for sales and delivery of its portfolio of solutions and services, it continues to focus operational responsibility along two regions, the Americas (including Brazil and Latin America) and Europe Region and the Asia Pacific Region covering, specifically, the markets of Australia, China, Pakistan, Saudi Arabia and Thailand. The Company continues to maintain services or products and specific sales offices in its current locations and will add offices on an as-needed basis.

The following discussion is intended to assist in an understanding of NetSol's financial position and results of operations for the quarter ended December 31, 2011. It should be read together with our consolidated financial statements and related notes included herein.

Page 25

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NETSOL TECHNOLOGIES, INC.

A few of NetSol's major successes achieved during the half year ended December 31, 2011 were:

- Further expansion in Chinese market by adding new customers. Formed a local entity in China under WFOE laws aka 'NetSol Beijing Ltd.', a wholly owned subsidiary of NetSol Technologies, Inc.
- Vroozi, Inc. signed a large SRM 7.0 project implementation with long term care service provider in the United States. Project includes complete implementation of the SAP SRM procurement tool, SAP Finance, and the Vroozi smartOCI™ marketplace technology.
- Vroozi Inc. developed a 'Big Data' loader for the smartOCI™ Catalog Manager which allows large supplier catalog files to be loaded via a secure web connection.
- A leading U.S. chipmaker has signed an agreement to implement NetSol's smartOCI™ search engine in its SAP e-Procurement environment.
- NetSol Technologies North America completed a new Generally Available Release of LeasePak 6.4 with enhanced performance (marked improvement in end of day, month and year processing routines including functionality enhancements).
- On the October 4th, 2011, NetSol Technologies Europe Limited jointly acquired United Kingdom-based Virtual Lease Services, Ltd. ("VLS"), together with Investec Asset Finance Plc. The acquisition is owned 51% by NetSol Technologies Europe, Ltd. and 49% by Investec Asset Finance. VLS, with more than 30 customers across the U.K. finance and leasing industry, provides key support to their clients in business areas, including portfolio management, distressed portfolio analysis and recovery, standby servicing requirements and other customer-driven tailored servicing. VLS utilizes NetSol's Leasesoft system for Lease Accounting and Administration as a key resource for their customer base. A major European Bank gone live with the LeaseSoft Portal application.
- We signed another agreement with Minsheng Financial Leasing Co. Ltd. (MSFL), a subsidiary of China Minsheng Bank Corporation Limited. MSFL is market leader in China's thriving financial leasing industry and a leading provider of aircraft leases in Asia.
- Signed a multi-million dollar agreement to implement the NetSol Financial Suite (NFS)™ solution, including its retail platforms, to a European Automobile manufacturer for its Malaysian operations.
  - The on-going project of a Fortune 500 company in Korea went live with the state-of-the-art NFS™ solution.
- Automation of Transport Department of the Province of Khyber Pakhtunkhwa, Pakistan gone live with NetSol's state of the art "Automation of Transport Department and Route Permits" solution.
- NetSol Technologies participated in the Australian Equipment Lessors Association (AELA), in Sydney. NetSol has become the regular member of this Association and was among the only 9 exhibitors for this exhibition.
- NetSol Technologies participated at the 30th China Leasing Business Association Anniversary, held in Beijing.
- Signed a multi-million dollar agreement to implement the NetSol Financial Suite (NFS)™ solution, including its retail platforms, for a company that will provide auto-financing services throughout China. The agreement gives NetSol another NFS™ client in China, and is being regarded as the 'testament to NetSol's experience and leadership in China which complements its recent expansion in the Asia-Pacific region'.



NETSOL TECHNOLOGIES, INC.

- Won a major contract in the area of ‘Information Security’ with a leading Telecom in Pakistan. Under the agreement NetSol will provide a comprehensive solution to the client that includes an ‘Intrusion Prevention System’ and ‘Security Information and Event Management System’.
- First NextGen – NFS™ went live with Thailand’s Kiatnakin, a leading Bank, a leading provider of financial services to commercial and corporate sectors in Thailand.

The success of the Company, in the near term, will depend, in large part, on the Company's ability to: (a) continue to grow revenues and improve profits, (b) adequately capitalize for growth in various markets and verticals; (c) make progress in the North and South American markets and, (d) continue to streamline sales and marketing efforts in the Asia Pacific region, Europe, China and the Middle East, Japan and Australia. However, management's outlook for the continuing operations, which has been consolidated and has been streamlined, remains optimistic.

#### Marketing and Business Development Activities

Management has developed, and the board of directors has ratified, an aggressive 3-5 year growth strategy aimed at increasing competitiveness and financial strength.

This plan is designed to:

Return to annual top line growth with the anticipation of double digit growth from 2013 onwards.

Achieve net margins in 2013, better than 2011 level of gross and net margins.

Result in enhanced organic growth by next generation of NFS™ solutions, SaaS model, e-commerce entry and leveraging new markets based on joint ventures.

Pursue the most strategic and synergistic acquisitions and new alliances based on our latest products and services.

Continue to enhance delivery and service capabilities in China, Thailand, USA and UK.

The plan contemplates the following enhanced activities and initiatives will accomplish these goals:

- o Continued expansion in the Chinese market. Management is poised to create a ‘proximity development center’ or PDC and clients support team to better serve our growing customers base. The Chinese market offers huge opportunities in the auto sectors in comparison with the US market, thus offers a very strong growth opportunities for NFS™.
- o NetSol’s Beijing office more than doubled its office space on March 1, 2011; new local Chinese staff has been added and additional hiring continues. The Wholly Foreign Owned Enterprise under Chinese laws has been formed. NetSol is positioning China to become a dominant market for lending enterprise solutions for captive multinationals and local Chinese companies, including equipment finance, big ticket leasing markets and the banking industry. In the lease and finance domain NetSol can claim the de facto leadership position in the rapidly growing Chinese market.
- o Further augmentation of NetSol Thai. The office space in Bangkok has been enhanced with new hires of local and international staff to address and support a very rapidly growing market. The pipeline of new customers is growing from the markets in Japan, South Korea, Australia, India and other regional markets. These markets will be



serviced and supported from the Thailand office with strong sales and client support team. The Bangkok facility is intended to become the prime location for delivery and implementation for global customers and partners particularly in Asia Pacific.

- o The new and fast growing manifestations of e-commerce, such as Cloud computing, are being utilized by some of our offerings and will be further explored by us for other offerings. Our e-commerce division's smartOCI™ has been demonstrated and presented to major fortune 500 companies in the US as an on-demand, catalogue content management system. The demand of e-procurement search engine seems robust and attractive. Continued new license sales activities are in the pipeline that led to formation of new subsidiary known as Vrooz, Inc. Presently smartOCI™ is the main asset in this entity while we explore other channels of growth in e-commerce and search engine space. There has been a surge of interest amongst fortune 500 corporations for demos and workshops for smartOCI™ in recent months. To date, six new US based major corporations have been signed up for smartOCI™.

NETSOL TECHNOLOGIES, INC.

- o Europe continues to experience a severe recession coupled with regional debt crises. Despite this, NetSol Europe's operations have been steady. Further, the business outlook is positive and, if this continues, NTE is expected to expand its product line and hire stronger management personnel. Our relationship with existing clientele is very strong and we are cautiously expanding the sales and marketing efforts in the region. The integration of VLS in conjunction with Investec Bank as a JV partner, would bolster growth in services sectors complementing core solutions offerings.
- o The market of the Kingdom of Saudi Arabia is robust, rich and well capitalized, offering vast opportunities for NetSol through our joint venture. Recently, there have been a few new local IT contracts awarded but our vision is based on long term and high value projects in the defense, public, infrastructure and multinational auto captive markets. In order to be equal partners with a major conglomerate, Atheeb Group, a \$2 billion group in revenue, we need to have the serious financial wherewithal and resources to bid on major projects exceeding \$100 million each in value. Currently, the joint venture has 10 employees based in Riyadh with direct delivery and implementation support from NetSol PK. The long term plan is to expand staffing levels and provide financial capability to bid in major projects with Atheeb. We are noticing an impressive traction for NFS™ in the Kingdom markets and ANSCL teams are aggressively positioning NetSol overall offering in this robust and rich economy.
- o Our NFS™ suite of products is currently undergoing a major initiative towards developing the next generation of solutions. The Company believes that this would change the landscape for NetSol and increase both demand and the market. We are in the middle of developing a comprehensive sales and marketing plan requiring new personnel, markets and investment. In addition to GMAC in China ready to go live in next few months, the first system went live in Thailand with a leading bank.
- o In order to maximize the market and product potential of our SAP and Ecommerce line, highlighted by our smartOCI™ product, we are spinning this line off into its own operational entity. We believe this will better enhance product and market development by providing a dedicated management and fulfillment staff.

Growth – New Alliances, Mergers & Acquisition

- o Pursue new opportunities in emerging markets of South America - such as Brazil and Argentina - through local partners. These focused and niche markets for leasing and finance verticals represent new opportunities to introduce NFS™ and related service offerings.
- o The markets in the US and UK offer a host of complementary companies with impressive client bases to expand the distribution channels for NFS™ and its new generation product line. There are established small sized Companies, with relatively low valuations, which can become part of NetSol on an affordable basis. It is important to seek out these companies in order to grow our customer base, revenue and net margins by leveraging our delivery and implementation model.

NETSOL TECHNOLOGIES, INC.

Funding and Investor Relations:

The fundamental challenge constantly facing the management is to achieve sustainable and impressive growth with a much stronger balance sheet. In light of global opportunities for organic growth and through alliances and M&A, there are certain opportunity costs for an inability to tap into these markets and areas. The biggest hurdle to win large value contracts and projects in every market is the weak cash position. Therefore, management has the responsibility to broaden its horizon by prudently exploring all available vehicles to adequately capitalize the Company. Smart new capital may be needed to make NetSol a much healthier company with an impressive balance sheet and sufficient size to participate in and win major projects in key markets. To summarize, the following areas would need injections of new capital either from internal operations or external injections, dependent, in part, on market conditions.

- Expansion in China, Thailand and other emerging markets, including Latin America.
- Expanding the North American operation to roll out NetSol new generation solutions and enter Cloud Computing Solutions.
- Diversify in Ecommerce space such as smartOCI™ search engine and build Vroozi as a winner name in the E-Commerce space.
- Support of bigger IT related public and defense sectors projects in the Kingdom of Saudi Arabia with our joint venture partner.
  - Capital Expenditures for our next generation products, technology and infrastructure.
    - Hiring and training of programmers, engineers, sales and marketing.

Capital may be injected through: continued exercises of options by the officers in cash; new debt and stock offerings with accredited investors who typically hold for long term investment as well as through a public offering based on market conditions and dynamics. The board and management would be cognizant and prudent to make the best decision in the long term interest of shareholders.

Investor Relations efforts will include:

- Working to grow our institutional investor base.
  - Sharing the NetSol story with sell side analysts, funds, portfolio managers and the financial media.
- Aggressively positioning NetSol in front of major investors' conferences and road shows to be organized by our IR consultants and investment bankers.
  - Utilizing US mainstream media to highlight NetSol's image and 'niche' business offering.
- The founding management continues to invest in the Company in the open market reaffirming their commitment to the potential and the future of the Company.
  - Dedicating and focusing efforts to improve shareholder value.

Improving the Bottom Line:

Management believes that these measures will improve the bottom line on an ongoing basis:

- Improve pricing, sales volume and fee structures.
- Continue consolidation and reevaluating operating margins as ongoing activities.
- Streamline further cost of goods sold to improve gross margins to historical levels over 60%, as sales ramp up.
  - Generate higher revenues per employee, enhance productivity and lower cost per employee.
- Optimize the utilization of NetSol's best talent and resources, infrastructure, processes and disciplines to maximize the bottom-line and fully leverage the cost arbitrage.
- Grow process automation and leverage the best practices of CMMI level 5. Global delivery concept and integration will further improve both gross and net margins.
  - Cost efficient management of every operation and continue further consolidation to improve bottom line.
- Create more visibility and predictability by implementing SaaS model in mature markets. Retire Debt to reduce the interest cost significantly and to make every effort to avoid any one time charges.

NETSOL TECHNOLOGIES, INC.

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. CMMI level companies are reassessed every three years by independent consultants under the standards of the Carnegie Mellon University to maintain its CMMI Level 5 quality certification. As required, NetSol was reassessed in 2010 and was successfully recertified as CMMI Level 5. We believe that the CMMI standards are a key reason in NetSol's demand surge worldwide. We remain convinced that this trend will continue for all NetSol offerings promoting further beneficial alliances and increasing the number and quality of our global customers. The quest for quality standards is imperative to NetSol's overall sustainability and success. In 2008, NetSol became ISO 27001 certified, a global standard and a set of best practices for Information Security Management.

MATERIAL TRENDS AFFECTING NETSOL

Management has identified the following material trends affecting NetSol.

Positive trends:

- The global recession and consolidations have opened doors for low cost solution providers such as NetSol. The BestShoring® model of NetSol is a catalyst in today's environment.
- Global economic pressures and the recession have shifted users of IT processes and technology to utilize both offshore and onshore solutions providers, to control costs and improve ROIs.
- Serious interest in NetSol's next generation solution has been expressed by a few global companies. Demos and workshops with key global clients and partners of have been very well received. Hence, the new generation solution appears to be gaining momentum.
- First successful implementation of NextGen – NFS™ solution with a Thai Bank is a very positive indicator for new deals.
- GMAC – China, the implementation of first NextGen for Wholesale Finance (WFS) is on track setting a strong foundation for growth. Two other key modules (CMS / CAP) are in the development stage and are expected to be marketed in fiscal 2012.
- China has become the world's second largest economy, continuing to grow by over 9% a year while growth in other industrial nations has declined or grown only marginally.
- China's automobile and banking sectors have been unaffected by the global meltdown and their recent automobile sales statistics have outperformed all other economies.
- As reported by the Associated Press, China surpassed the US as the number one automobile market in auto sales. JD Powers & Associates anticipated further strong growth in future auto sales. It is anticipated that this market opportunity will result in further penetration by NetSol into China's burgeoning leasing and finance market.
- E-Commerce, new technologies, innovations and online activities are gaining momentum in many verticals. New areas for diversification are opening for NetSol.
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Strong entry in e-commerce space by way of developing and marketing a new IP and winning series of fortune 500 US customers.

Page 30

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NETSOL TECHNOLOGIES, INC.

- The surviving IT companies, such as NetSol, with price advantage and a global presence, will gain further momentum as economic indicators turn positive. The bigger customers and targeted verticals are much more cost conscious and are seeking a better rate of return on investments in IT services. NetSol has an edge due to its BestShoring® model and proven track record of delivery and implementations worldwide.
- The Kingdom of Saudi Arabia is investing billions in healthcare, education, IT, infrastructure and many other new sectors. This makes it a most promising market for the Atheeb NetSol joint venture.
  - Noticeable new interest emanating from the Latin America markets for NFS™.
- NetSol has never lost a product customer despite the recent severe recession. The dependency of our blue chip clients on NetSol solutions has further elevated new enhancements and services orders in the US.
- Improved outlook and earnings of bellwether technology companies in USA, reflecting the turnaround of this sector after recession.
- Global opportunities for NetSol to diversify its delivery capabilities to Bangkok, Thailand and such other new emerging economies that offer geopolitical stability and low cost IT resources, thereby reducing dependency upon the Lahore technology campus.
- Our global multi-national clients have continued to pursue deeper relationships in newer regions and countries. This reflects our customers' dependencies and satisfaction with our NetSol Financial Suite of products.
- 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 5 more years remaining on this tax incentive.

Negative trends:

- Geopolitical unrest due to extremism in the regions of Pakistan and Afghanistan.
  - Significant strains in US-Pakistan relations.
- Recent turbulent political developments in the Arab world might delay activities and plans.
  - Natural disasters in Japan, Thailand and Pakistan have damaged these economies.
- The emergence of many smaller players offering IT solutions in China has resulted in greater price competition.
- The fear of renewed recession in light of U.S debt down-grade and the continued sluggish European market, could lead to our business in North America and Europe suffering.
- Dramatic and deep global recession has created a serious decline in business spending causing significant budget cuts for many of the Company's target verticals.
- Tightened liquidity and credit restrictions in consumer spending has either delayed or reduced spending on business solutions and systems, squeezing IT budgets and extending decision making cycles.





NETSOL TECHNOLOGIES, INC.

- Tighter internal processes and budgets will cause delays in the receivables from a few clients.
- Anticipated worsening US deficit and a rise in inflation in coming years would put further stress on consumers and business spending.
- Volatility in oil prices, Euro zone in European markets and uncertainty overall in global economies could deter the growth and GDP in the US.
- Unrest and growing war in Afghanistan could increase the migration of both refugees and extremists to Pakistan, thus creating domestic and regional challenges.
- Management believes that the Pakistan rupee is overvalued and that once adjustments are made there might be both positive and negative impacts on the financial statements of the Company. Positive impact could be in terms of the price of our services while translating Pakistan revenues at a higher exchange rate in the consolidated revenue statement might result in negative impact on the financial statements in future.

#### CRITICAL ACCOUNTING POLICIES

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

#### REVENUE RECOGNITION

The Company recognizes revenue from license contracts without major customization when a non-cancelable, non-contingent license agreement has been signed, delivery of the software has occurred, the fee is fixed or determinable, and collectability is probable. Revenue from the sale of licenses with major customization, modification, and development is recognized on a percentage of completion method. Revenue from the implementation of software is recognized on a percentage of completion method.

Revenue from consulting services is recognized as the services are performed for time-and-materials contracts. Revenue from training and development services is recognized as the services are performed. Revenue from maintenance agreements is recognized ratably over the term of the maintenance agreement, which in most instances is one year.

#### MULTIPLE ELEMENT ARRANGEMENTS

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

VSOE of fair value for each element is based on the price for which the element is sold separately. We determine the VSOE of fair value of each element based on historical evidence of our stand-alone sales of these elements to third-parties or from the stated renewal rate for the elements contained in the initial software license arrangement. When VSOE of fair value does not exist for any undelivered element, revenue is deferred until the earlier of the point

at which such VSOE of fair value exists or until all elements of the arrangement have been delivered. The only exception to this guidance is when the only undelivered element is maintenance and support or other services, then, the entire arrangement fee is recognized ratably over the performance period.

#### INTANGIBLE ASSETS

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

## NETSOL TECHNOLOGIES, INC.

### SOFTWARE DEVELOPMENT COSTS

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

The Company makes on-going evaluations of the recoverability of its capitalized software projects by comparing the amount capitalized for each product to the estimated 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 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.

### STOCK-BASED COMPENSATION

Our stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including expected volatility and expected term. If any of the assumptions used in the BSM model changes significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience and our expectations regarding future pre-vesting termination behavior of employees. To the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly.

### RECENT ACCOUNTING PRONOUNCEMENTES

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 3 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

### GOODWILL

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

CASH RESOURCES

The company had \$-----4.723 million worldwide in cash as on December 31, 2011.

NETSOL TECHNOLOGIES, INC.

AVAILABLE INFORMATION

Through the company's web sites, its customers, both existing and potential, and investors can access a wide range of information about its product offerings, and support and technical matters.

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

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

NETSOL TECHNOLOGIES, INC.

## CHANGES IN FINANCIAL CONDITION

Quarter Ended December 31, 2011 as compared to the Quarter Ended December 31, 2010:

Net revenues for the quarter ended December 31, 2011 and 2010 are broken out among the subsidiaries as follows:

	2011			2010		
	Revenue	%		Revenue	%	
Corporate headquarters	\$-	0.00	%	\$-	0.00	%
North America:						
Netsol Tech NA	840,244	9.76	%	988,708	9.48	%
Vroozi	-	0.00	%	-	0.00	%
	840,244	9.76	%	988,708	9.48	%
Europe:						
Netsol UK	-	0.00	%	-	0.00	%
Netsol Tech Europe	1,128,100	13.11	%	2,486,792	23.85	%
VLHS	-	0.00	%	-	0.00	%
VLS	458,364	5.33	%	-	0.00	%
HAFL	3,152	0.04	%	-	0.00	%
	1,589,616	18.47	%	2,486,792	23.85	%
Asia-Pacific:						
Netsol Tech (PK)	5,005,922	58.17	%	5,419,981	51.99	%
Netsol-Innovation	722,855	8.40	%	729,012	6.99	%
Netsol Connect	151,407	1.76	%	186,470	1.79	%
Netsol-Abraxas Australia	90,883	1.06	%	16,284	0.16	%
Netsol-Thailand	205,126	2.38	%	598,000	5.74	%
	6,176,193	71.77	%	6,949,747	66.66	%
Total	\$8,606,052	100.00	%	\$10,425,247	100.00	%

## NETSOL TECHNOLOGIES, INC.

The following table sets forth the items in our unaudited consolidated statement of operations for the three months ended December 31, 2011 and 2010 as a percentage of revenues.

	For the Three Months Ended December 31,				
	2011			2010	
Net Revenues:		%			%
License fees	\$ 2,047,855	23.80	%	\$ 3,129,063	30.01 %
Maintenance fees	2,121,282	24.65	%	2,023,509	19.41 %
Services	4,436,916	51.56	%	5,272,675	50.58 %
Total revenues	8,606,052	100.00	%	10,425,247	100.00 %
Cost of revenues:					
Salaries and consultants	2,287,803	26.58	%	2,127,280	20.41 %
Travel	254,169	2.95	%	238,776	2.29 %
Repairs and maintenance	96,723	1.12	%	71,459	0.69 %
Insurance	31,348	0.36	%	31,087	0.30 %
Depreciation and amortization	812,510	9.44	%	679,284	6.52 %
Other	421,416	4.90	%	348,859	3.35 %
Total cost of revenues	3,903,969	45.36	%	3,496,745	33.54 %
Gross profit	4,702,083	54.64	%	6,928,503	66.46 %
Operating expenses:					
Selling and marketing	735,132	8.54	%	1,002,877	9.62 %
Depreciation and amortization	289,030	3.36	%	267,861	2.57 %
Bad debt expense	-	0.00	%	(353 )	0.00 %
Salaries and wages	1,152,023	13.39	%	736,898	7.07 %
Professional services, including non-cash compensation	236,911	2.75	%	151,276	1.45 %
General and administrative	1,072,483	12.46	%	873,569	8.38 %
Total operating expenses	3,485,579	40.50	%	3,032,128	29.08 %
Income from operations	1,216,504	14.14	%	3,896,375	37.37 %
Other income and (expenses)					
Loss on sale of assets	(1,633 )	-0.02	%	(792 )	-0.01 %
Interest expense	(158,957 )	-1.85	%	(291,475 )	-2.80 %
Interest income	7,264	0.08	%	9,958	0.10 %
Gain (loss) on foreign currency exchange transactions	160,125	1.86	%	(400,658 )	-3.84 %
Share of net loss from equity investment	-	0.00	%	(71,799 )	-0.69 %
Beneficial conversion feature	(61,441 )	-0.71	%	(118,163 )	-1.13 %
Other (expense)	(8,988 )	-0.10	%	(1,748 )	-0.02 %
Total other income (expenses)	(63,629 )	-0.74	%	(874,677 )	-8.39 %
Net income before income taxes	1,152,875	13.40	%	3,021,698	28.98 %
Income taxes	(7,005 )	-0.08	%	(3,168 )	-0.03 %
Net income after tax	1,145,870	13.31	%	3,018,530	28.95 %
Non-controlling interest	(826,303 )	-9.60	%	(1,082,792 )	-10.39 %
Net income attributable to NetSol	319,567	3.71	%	1,935,737	18.57 %

Net revenues for the quarter ended December 31, 2011 were \$8,606,052 as compared to \$10,425,247 for the quarter ended December 31, 2010. This reflects a decrease of \$1,819,195 or 17.45% in the current quarter as compared to the quarter ended December 31, 2010. Year over year, revenue from license income was reduced by \$1,081,209. This decrease is mainly due to the delay in signing of new deals by some of the prospective customers due to the recent US-Pak tension and the geo-political conditions of the South Asian region. Although we should have begun to see deals executed during the current quarter, it will still take some time to regain the momentum. Services revenue, which also includes consulting and implementation, decreased to \$4,436,916 as compared to \$5,272,675 last year. This is a decrease by 15.85%. While our existing clients continued to request new services and enhancements, delays in signing the deals, resulted in a reduction in services revenue. Our maintenance fees slightly increased by \$97,772. As we sell more licenses, this fee is expected to further increase in the future.



## NETSOL TECHNOLOGIES, INC.

The gross profit was \$4,702,083 in the quarter ending December 31, 2011 as compared with \$6,928,503 for the same quarter of the previous year. This is a decrease of 32.13% or \$2,226,420. The gross profit percentage for the quarter also decreased to 54.64% from 66.46% in the quarter ended December 31, 2010, due to reduction in revenues. The cost of sales was \$3,903,969 in the current quarter compared to \$3,496,745 in the comparable quarter of fiscal 2011. As a percentage of sales it increased from 33.54% for the quarter ended December 31, 2010 to 45.36% in the current quarter. Salaries and consultant fees increased by \$160,523; from \$2,127,280, in the prior comparable quarter, to \$2,287,803. As a percentage of sales, it increased from 20.41% in the prior comparable quarter to 26.58% in the current quarter. The increase in salaries is due to the hiring of new employees in key locations including Pakistan, Thailand and North America. Depreciation and amortization expense also increased to \$812,510 compared to \$679,284 in the corresponding quarter last year or an increase of \$133,226. A subsidiary of the Company, acquired a new subsidiary, in the quarter under review, which resulted in recognition of additional customer list and technology to be amortized over a period of five years. In addition, the Company has certain intangible assets under development and as soon as an asset is ready for market, its amortization is started, hence this increase. The main reason for this increase in cost of sales and reduction in gross margins is the depressed revenues due to the reasons already discussed above.

Operating expenses were \$3,485,579 for the quarter ending December 31, 2011 as compared to \$3,032,128, for the corresponding period last year or an increase of 14.95% or \$453,451. As a percentage of sales, it increased from 29.08% to 40.5%. Depreciation and amortization expense amounted to \$289,030 and \$267,861 for the quarter ended December 31, 2011 and 2010, respectively. Combined salaries and wage costs were \$1,152,023 and \$736,898 for the comparable periods, respectively. As a percentage of sales, these costs increased from 7.07% to 13.39%. General and administrative expenses were \$1,072,483 and \$873,569 for the quarters ended December 31, 2011 and 2010, respectively, an increase of \$198,914 or 22.77%. As a percentage of sales, these expenses were 12.46% in the current quarter compared to 8.38% in the comparable quarter.

Selling and marketing expenses were \$735,132 and \$1,002,877, in the quarter ended December 31, 2011 and 2010, respectively. Due to the current economic conditions, the Company strives to utilize its resources very judiciously which has resulted in a reduction in sales and marketing expenses. Professional services expense increased 56.6% to \$236,911 in the quarter ended December 31, 2011, from \$151,276 in the corresponding period last year. The main reason for this increase is the utilization of services of some consultants for the preparation of the registration statement on form S-3 already filed by the Company.

Income from operations was \$1,216,504, compared to \$3,896,375, for the quarters ended December 31, 2011 and 2010, respectively. This represents a decrease of \$2,679,871 for the quarter compared with the comparable period in the prior year. As a percentage of sales, net income from operations was 14.14% in the current quarter compared to 37.37% in the prior period.

Net income was \$319,567, compared to \$1,935,737, for the quarters ended December 31, 2011 and 2010, respectively. This is a decrease of \$1,616,171 compared to the prior year. Included in this income is foreign currency exchange gain of \$160,125 (December 2010, a loss of \$400,658) due to appreciation of the US Dollar in the current quarter against the Pakistan Rupee. The current fiscal quarter amount includes a net reduction of \$826,303, compared to \$1,082,792 in the prior period, for the 49.9% non-controlling interest in NetSol Innovation owned by other parties, the 39.48% non-controlling interest in NetSol PK and 49% non-controlling interest in VLS. Interest expense was \$158,957 in the current quarter as compared to \$291,475 in the comparable period. Net income per share, basic and diluted, was \$0.01 as compared to \$0.04 for the quarters ended December 31, 2011 and 2010.

The net EBITDA income was \$1,579,805 compared to \$3,167,567 for the quarters ended December 31, 2011 and 2010, after amortization and depreciation charges of \$1,101,541 and \$947,145, income taxes of \$7,005 and \$3,168,

interest expense of \$158,957 and \$291,475, and interest income of \$7,264 and \$9,958 respectively. The EBITDA earning per share, basic and diluted was \$0.03 for the quarter ended December 31, 2011 and, \$0.07 and \$0.06 for the quarter ended December 31, 2010. As a percentage of revenues EBITDA was 18.36% compared to 30.38% for the quarters ended December 31, 2011 and 2010, respectively. 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.

## NETSOL TECHNOLOGIES, INC.

Six Month Period Ended December 31, 2011 as compared to the Six Month Period Ended December 31, 2010:

Net revenues for the six months ended December 31, 2011 and 2010 are broken out among the subsidiaries as follows:

	2011		2010	
	Revenue	%	Revenue	%
Corporate headquarters	\$ -	0.00 %	\$ -	0.00 %
<b>North America:</b>				
Netsol Tech NA	1,749,313	11.79 %	2,231,691	11.85 %
Vroozi	-	0.00 %	-	0.00 %
	1,749,313	11.79 %	2,231,691	11.85 %
<b>Europe:</b>				
Netsol UK	-	0.00 %	-	0.00 %
Netsol Tech Europe	2,044,718	13.78 %	4,576,771	24.31 %
VLHS	-	0.00 %	-	0.00 %
VLS	458,364	3.09 %	-	0.00 %
HAFL	3,152	0.02 %	-	0.00 %
	2,506,234	16.89 %	4,576,771	24.31 %
<b>Asia-Pacific:</b>				
Netsol Tech (PK)	8,189,968	55.21 %	9,484,435	50.37 %
Netsol-Innovation	1,625,050	10.95 %	1,395,817	7.41 %
Netsol Connect	301,202	2.03 %	318,745	1.69 %
Netsol-Abraxas Australia	159,665	1.08 %	19,128	0.10 %
Netsol-Thailand	303,328	2.04 %	801,732	4.26 %
	10,579,213	71.31 %	12,019,857	63.84 %
<b>Total</b>	<b>\$ 14,834,760</b>	<b>100.00 %</b>	<b>\$ 18,828,319</b>	<b>100.00 %</b>

## NETSOL TECHNOLOGIES, INC.

The following table sets forth the items in our unaudited consolidated statement of operations for the six months ended December 31, 2011 and 2010 as a percentage of revenues:

	For the Six Months Ended December 31,			
	2011		2010	
		%		%
Net Revenues:				
License fees	\$ 3,123,705	21.06 %	\$ 6,606,856	35.09 %
Maintenance fees	4,158,488	28.03 %	3,693,428	19.62 %
Services	7,552,567	50.91 %	8,528,035	45.29 %
Total revenues	14,834,760	100.00 %	18,828,319	100.00 %
Cost of revenues:				
Salaries and consultants	4,671,214	31.49 %	4,114,167	21.85 %
Travel	539,842	3.64 %	470,388	2.50 %
Repairs and maintenance	170,917	1.15 %	128,517	0.68 %
Insurance	67,216	0.45 %	62,079	0.33 %
Depreciation and amortization	1,601,615	10.80 %	1,310,225	6.96 %
Other	937,825	6.32 %	591,997	3.14 %
Total cost of revenues	7,988,629	53.85 %	6,677,375	35.46 %
Gross profit	6,846,131	46.15 %	12,150,943	64.54 %
Operating expenses:				
Selling and marketing	1,435,413	9.68 %	1,486,847	7.90 %
Depreciation and amortization	480,704	3.24 %	534,303	2.84 %
Bad debt expense	192,250	1.30 %	254,279	1.35 %
Salaries and wages	1,958,587	13.20 %	1,657,162	8.80 %
Professional services, including non-cash compensation	423,660	2.86 %	290,361	1.54 %
General and administrative	1,965,455	13.25 %	2,006,088	10.65 %
Total operating expenses	6,456,069	43.52 %	6,229,041	33.08 %
Income from operations	390,062	2.63 %	5,921,903	31.45 %
Other income and (expenses)				
Loss on sale of assets	(3,274 )	-0.02 %	(15,586 )	-0.08 %
Interest expense	(419,164 )	-2.83 %	(607,119 )	-3.22 %
Interest income	40,069	0.27 %	94,419	0.50 %
Gain (loss) on foreign currency exchange transactions	39,219	0.26 %	673,236	3.58 %
Share of net loss from equity investment	(100,000 )	-0.67 %	(142,236 )	-0.76 %
Beneficial conversion feature	(74,247 )	-0.50 %	(295,574 )	-1.57 %
Other (expense)	(16,706 )	-0.11 %	(57,301 )	-0.30 %
Total other income (expenses)	(534,103 )	-3.60 %	(350,162 )	-1.86 %
Net income before income taxes	(144,041 )	-0.97 %	5,571,740	29.59 %
Income taxes	(31,539 )	-0.21 %	(11,724 )	-0.06 %
Net income after tax	(175,580 )	-1.18 %	5,560,016	29.53 %
Non-controlling interest	(963,561 )	-6.50 %	(2,057,301 )	-10.93 %
Net income attributable to NetSol	(1,139,141 )	-7.68 %	3,502,715	18.60 %

Net revenues for the six months ended December 31, 2011 were \$14,834,760 as compared to \$18,828,319 for the six months ended December 31, 2010. This reflects a decrease of \$3,993,559 or 21.21%. Revenue from license income decreased to \$3,123,705 from \$6,606,856 in the corresponding half year of fiscal 2011. This is a decrease of \$3,483,151 or 52.72%. This decrease is mainly due to the delay in signing of new deals by some of the prospective customers due to the recent US-Pak tension and the geo-political conditions of the South Asian region. Although deals are being executed in the current quarter, it will still take some time to regain the momentum. Services revenue, which also includes consulting and implementation, decreased to \$7,552,567 as compared to \$8,528,035 last year. While existing clients have requested new services and enhancements, the delay in signing deals has resulted in a reduction in services revenue. In the first half of fiscal 2011, our maintenance fees increased by \$465,060, from \$3,693,428 last year, to \$4,158,488. As we sell more licenses, this fee is expected to further increase in the future.

## NETSOL TECHNOLOGIES, INC.

The gross profit was \$6,846,131 in the six months ending December 31, 2011 as compared with \$12,150,945 for the same period of the previous year or a decrease of 43.66%. The gross profit percentage for the six months decreased to 46.15% from 64.54% in the six months ended December 31, 2010. The cost of sales was \$7,988,629 in the current period compared to \$6,677,375 in the comparable period of fiscal 2011. As a percentage of sales, it increased from 35.46% for the six months ended December 31, 2010 to 53.85% in the current period. Salaries and consultant fees increased by \$557,047 from \$4,114,167 in the prior comparable period to \$4,671,214. As a percentage of sales, it increased from 21.85% in the prior comparable period to 31.49% in the current period. The increase in salaries is due to hiring of new employees in key locations including Pakistan, Thailand and North America. Depreciation and amortization expense also increased to \$1,601,615 compared to \$1,310,225 in the corresponding half year or an increase of \$291,390. One of the subsidiaries of the Company acquired a new subsidiary during the December quarter which resulted in recognition of additional customer list and technology to be amortized over a period of five years. In addition, the Company has certain intangible assets under development and as soon as an asset is ready for market, its amortization is started, hence this increase. The main reason for this increase in cost of sales and reduction in gross margins is the depressed revenues due to the reasons already discussed above.

Operating expenses were \$6,456,069 for the six months ending December 31, 2011 as compared to \$6,229,041, for the corresponding period last year or an increase of 3.64% or \$227,028. As a percentage of sales, it increased by 10.44% from 33.08% to 43.52%. Depreciation and amortization expense amounted to \$480,704 and \$534,303 for the six months ended December 31, 2011 and 2010, respectively. Combined salaries and wage costs were \$1,958,587 and \$1,657,162 for the comparable periods, respectively. As a percentage of sales, these costs increased from 8.80% to 13.2%. General and administrative expenses were \$1,965,455 and \$2,006,088 for the six months ended December 31, 2011 and 2010, respectively, a decrease of \$40,633 or 2.03%. As a percentage of sales, these expenses were 13.25% in the current period compared to 10.65% in the comparable period.

Selling and marketing expenses were \$1,435,413 and \$1,486,847 in the six months ended December 31, 2011 and 2010, respectively. Due to the current economic conditions, the Company strives to utilize its resources very judiciously which has resulted in a reduction in the sales and marketing expenses. Professional services expense increased 45.91% to \$423,660 in the six months ended December 31, 2011, from \$290,361 in the corresponding period last year. The primary reason for this increase is the utilization of services of some consultants for the preparation registration statement on form S-3 form already filed by the Company.

Income from operations was \$390,062 compared to \$5,921,905 for the six months ended December 31, 2011 and 2010, respectively. This represents a decrease of \$5,531,843 for the six months compared with the comparable period in the prior year. As a percentage of sales, net income from operations was 2.63% in the current period compared to 31.45% in the prior period.

Net loss was \$1,139,141 compared to a net income of \$3,502,718 for the six months ended December 31, 2011 and 2010, respectively. This is a decrease of \$4,641,858 compared to the prior year. Included in this income is foreign currency exchange gain of \$39,219 (December 2010, \$673,236) due to appreciation of the US Dollar in the current half year period against the Pakistan Rupee. The current fiscal period amount includes a net reduction of \$963,561 compared to \$2,057,301 in the prior period for the 49.9% non-controlling interest in NetSol Innovation owned by other parties, the 39.48% non-controlling interest in NetSol PK and 49% non-controlling interest in VLS. Interest expense was \$419,164 in the current six months as compared to \$607,119 in the comparable period. Net loss per share, basic and diluted, was \$0.02 as compared to net income of \$0.08 for the periods ended December 31, 2011 and 2010.

The net EBITDA income was \$1,353,812 compared to \$5,871,669 for the periods ended December 31, 2011 and 2010, after amortization and depreciation charges of \$2,082,319 and \$1,844,528, income taxes of \$31,539 and

\$11,724, interest expense of \$419,164 and \$607,119 and interest income of \$40,069 and \$94,419 respectively. The EBITDA earning per share, basic and diluted was \$0.02 and \$0.13 for the period ended December 31, 2011 and 2010 respectively. As a percentage of revenues EBITDA was 9.13% compared to 31.19% for the periods ended December 31, 2011 and 2010, respectively. 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.

NETSOL TECHNOLOGIES, INC.

LIQUIDITY AND CAPITAL RESOURCES

We note that the Company's cash position was \$4,723,366 at December 31, 2011, compared to \$5,856,152 at December 31, 2010.

Net cash provided by operating activities amounted to \$3,957,478 for the six months ended December 31, 2011, as compared to \$5,306,822 for the comparable period last fiscal year. The decrease is mainly due to reduction in net profits of the Company and increase in accounts receivable. The average collection cycle for accounts receivables ranges between three to six months from the date of invoicing. The average days sales outstanding, for the period ended December 31, 2011, was 151 days as compared with 144 days in same period of fiscal 2011.

Net cash used by investing activities amounted to \$6,844,863 for the six months ended December 31, 2011, as compared to \$5,994,175 for the comparable period last fiscal year. The Company had net purchases of property and equipment of \$2,832,212 compared to \$2,450,222 for the comparable period last fiscal year. The Company also purchased the non-controlling interest in NetSol Connect using \$180,000 in the corresponding period. The Company also paid net amount of \$253,192 for the purchase of subsidiary in UK. The short term investment held for sales used \$Nil in current period as compared to \$256,706 in corresponding previous year. The increase in intangible assets which represents amounts capitalized for the development of new products was \$3,713,090 and \$3,127,234 for the comparable periods.

Net cash provided by financing activities amounted to \$3,348,830 and \$2,586,278 for the six months ended December 31, 2011, and 2010, respectively. The Company did not generate cash through the sale of its common stock whereas in the corresponding period of fiscal 2011, the cash generated through sale of common stock was \$2,566,750. The six months ended December 31, 2011 included the cash inflow of \$368,000 from the exercising of stock options and warrants compared to \$667,300 in the six months ended December 31, 2010. In the current fiscal period, the Company had net payments on account of bank loans, loans and capital leases of \$4,834,249 as compared to \$3,035,240 in the comparable period last year. The Company is operating in varying geographical regions of the world through its various subsidiaries. Those subsidiaries have financial arrangements from various financial institutions to meet both their short and long term funding requirements. These loans will become due at different maturity dates the detail of which is given in Note No. 12 of the annexed financial statements. The company and all its subsidiaries are in compliance with the covenants of the financial arrangements and there is no default, whatsoever, which may lead to early payment of these obligations. The Company anticipates to pay back all these obligations on their respective due dates from its own sources.

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

As a growing company, we have on-going capital expenditure needs based on our short term and long term business plans. Although our requirements for capital expenses vary from time to time, for the next 12 months, we anticipate needing working capital of \$5.0 to \$7.0 million for US, European and UAE, 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 be very cautious and prudent about any new capital raise given the global market declines. However, the Company is very conscious of the dilutive effect and price pressures in raising equity-based capital.

Financial Covenants



Our UK based subsidiary, NetSol Technologies Europe Limited (NTE) has an approved overdraft facility of £200,000 which requires that the aggregate amount of invoiced trade debtors (net of provisions for bad and doubtful debts and excluding intra-group debtors) of NTE, not exceeding 90 days old, will not be less than an amount equal to 200% of the facility. The Pakistani subsidiary, NetSol Technologies Limited (NTPK) has an approved facility for both export refinance and term finance from Askari Bank Limited amounting to Rupees 400 million (\$4,434,590 approximately) which requires NTPK to maintain a long term debt equity ratio of 60:40 and the current ratio of 1:1.

Our UK based subsidiary, NetSol Technologies Europe Limited (NTE) has an approved facility of £1,000,000 which requires that the adjusted tangible net worth will not be less than £600,000. For this purpose, adjusted tangible net worth means shareholders' funds less intangible assets plus non-redeemable preference shares. And cash debt service coverage will not fall below 150% of the aggregate debt service cost. These financial covenants will remain in force until the loan has been repaid in full.

NETSOL TECHNOLOGIES, INC.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Report (December 31, 2011). Based upon that evaluation, the Chief Financial Officer and Chief Executive Officer concluded that our disclosure controls and procedures were not effective given the weakness of our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

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

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

Under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, we have performed an assessment of the effectiveness of our internal controls over financial reporting as of December 31, 2011. This assessment was based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of our assessment, the Company has determined that as of December 31, 2011, there was a material weakness in the Company's internal control over financial reporting. Specifically, while in the performance of this assessment, management identified that its accounting staff do not have sufficient technical accounting knowledge relating to accounting for complex U.S. GAAP matters. In particular, although our CFO is a Chartered Accountant (CA) in Pakistan neither he, nor our controllers, holds a Certified Public Accounting (CPA) license in the United States. While the CA certification is recognized in several key countries relative to the Company's operations, including Pakistan, the United Kingdom, and other British Commonwealth countries, the Company has determined that a deficiency exists with respect to required financial reporting expertise in the United States. Based on this evaluation, management concluded that our internal control over financial reporting was not effective as of December 31, 2011. Notwithstanding the existence of such material weakness in our internal controls over financial reporting, our management, including our Chief Executive Officer, believes that the financial statements included in this report

fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Management is committed to remediating the material weakness as quickly as possible and we will continue to encourage our current accounting staff to both further their continuing education and to sit for the Certified Public Accountant exam in the United States. In recognition of immediate financial reporting needs, the Company intends to implement additional controls and procedures during the current fiscal year to continue to ensure timely and accurate financial reporting objectives. Such additional controls and procedures may include: The retention of a U.S. based CPA as Chief Financial Officer with U.S. GAAP experience and appropriate knowledge of internal controls over financial reporting, for purposes of appropriate oversight of the financial reporting process and continued training of the accounting staff; recruitment of additional personnel with relevant U.S. GAAP experience to enhance our financial reporting and internal control function; retention of the services of a consultant for advisory services with respect to SOX 404 compliance. Management has been actively seeking to retain a U.S. based CPA and will retain such an individual at such time as we find a satisfactory and qualified candidate.

NETSOL TECHNOLOGIES, INC.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter of fiscal year 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

To the best knowledge of Company's management and counsel, there is no material litigation pending or threatened against the Company.

Item. 1A. Risk Factors

We have yet to regain compliance with the minimum bid price required by nasdaq listing rules. while we have 180 calendar days from the date of the notice to regain compliance, there is no guarantee that we will be able to regain compliance within the time frame, that should we fail to regain compliance during the initial grace period that we will be able to meet the criteria for a further grace period or that even if we regain compliance that we shall be able to continue to meet the minimum bid price requirements.

On September 2, 2011, we received a notice from NASDAQ of failure to comply with a continued listing rule, specifically the minimum bid price of NASDAQ Listing Rule 5550(a)(2). We have a grace period of 180 calendar days in which to regain compliance and there is no guarantee that this will happen. Should we fail to regain compliance during the initial grace period, there is no guarantee that we will meet the criteria for a further grace period. Failure to regain compliance could result in delisting of our common stock from NASDAQ.

**BOTH THE RECOVERY FROM THE RECENT ECONOMIC RECESSION AND RECOVERY FROM RECENT NATURAL DISASTERS MAY AFFECT OUR CUSTOMERS' PURCHASING AND PAYMENT DECISIONS, NEGATIVELY AFFECTING OUR PIPELINE AND ACCOUNTS RECEIVABLES.**

A number of our customers are auto manufacturers with corporate headquarters in Japan. The Japanese earthquake and tsunami has delayed some customers' decisions to upgrade or increase implementations of our projects. This, coupled with the sluggish economic recovery in North America and Europe, may slow new orders. A slowdown in new orders could result in less revenue. Further, economic pressures have caused some customers to slow payment of outstanding invoices. Should this slower payment cycle continue, our accounts receivables may increase and we could, potentially, be required to make provisions for bad debts.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

UNREGISTERED SALES OF EQUITY SECURITIES

In October 2011, the Company issues 80,000 shares of common stock to its independent directors as compensation for services performed through September 30, 2011. The shares were issued based on an exemption from registration under Rule 4(6) of the Securities Act of 1933, as amended. Each independent director is an accredited investor with access to information regarding the Company by virtue of their position on the board of directors.

In October 2011, the Company issued 187,500 shares of common stock to executive officers of the Company. The shares were issued for services rendered through June 30, 2011 and were issued based on an exemption from registration under Rule 4(6) of the Securities Act of 1933, as amended. Each employee is an accredited investor with access to information regarding the Company by virtue of their position with the Company.

## NETSOL TECHNOLOGIES, INC.

In December 2011, the Company issued 125,000 shares of common stock to consultant as payment in lieu of cash due under the terms of the consulting agreement. The shares were issued for services rendered as full and complete payment of all amounts due under the consulting agreement. The shares were issued based on an exemption from registration under Rule 4(6) of the Securities Act of 1933, as amended. The consultant is an accredited investor.

## STOCK REPURCHASE PLAN

The below table gives the detail of the repurchases made by the company during the half year ended December 31, 2011:

Month	Issuer Purchases of Equity Securities			Maximum Number of Shares that may be Purchased Under the Plans or Programs
	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		
Nov-11	\$ 0.44	44,300		2,500,000

On November 11, 2011, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 2,500,000 of its shares of common stock over the following 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. To date 2,455,700 shares remain under the stock repurchase program

## 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

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)



NETSOL TECHNOLOGIES, INC.

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: February 2, 2012      /s/ Najeeb Ghauri

NAJEEB GHOURI  
Chief Executive Officer

Date: February 2, 2012      /s/Boo-Ali Siddiqui

BOO-ALI SIDDIQUI  
Principal Financial Officer  
and Chief Financial  
Officer  
Principal Accounting  
Officer