

NETSOL TECHNOLOGIES INC  
Form 10KSB  
September 27, 2006

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-KSB**

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
**EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
**SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-22773

**NETSOL TECHNOLOGIES, INC.**

(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  
Identification Number)

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)

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

**COMMON STOCK, \$.001 PAR VALUE  
THE NASDAQ STOCK MARKET LLC**

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

**COMMON STOCK, \$.001 PAR VALUE  
(TITLE OF CLASS)  
NASDAQ CAPITAL MARKET  
(NAME OF EXCHANGE ON WHICH REGISTERED)**

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been

subject to such filing requirements for the past 90 days. Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Registrant's revenues for the fiscal year ended June 30, 2006 were \$18,690,412.

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$18,482,987 as of September 20, 2006

As of September 20, 2006, Registrant had 17,623,741 shares of its \$.001 par value Common Stock issued and outstanding and no shares of its Preferred Stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

(None)

Transitional Small Business Disclosure Format (Check one): Yes ; No

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## PART I

This Form 10K-SB contains forward looking statements relating to the development of the Company's products and services and future operation results, including statements regarding the Company that are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The words "believe," "expect," "anticipate," "intend," variations of such words, and similar expressions, identify forward looking statements, but their absence does not mean that the statement is not forward looking. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Factors that could affect the Company's actual results include the progress and costs of the development of products and services and the timing of the market acceptance.

### ITEM 1 - BUSINESS

#### GENERAL

NetSol Technologies, Inc. (F/K/A NetSol International, Inc. "NetSol" or the "Company") is an end-to-end information technology ("IT") and business consulting services provider for the lease and finance, banking and financial services industries. Since it was founded in 1997, the Company has developed enterprise solutions that help clients use IT more efficiently in order to improve their operations and profitability and to achieve business results. The Company's focus has remained the lease and finance, banking and financial services industries. The Company operates on a global basis with locations in China, Europe, East Asia and the U.S. By utilizing its worldwide resources, the Company believes it has been able to deliver high quality, cost-effective IT products and IT services. The Company's subsidiary, NetSol Technologies Ltd. ("NetSol PK") develops the majority of the software for the Company. NetSol PK was the first software company in Pakistan in 1998 to achieve the ISO 9001 accreditation and was again the first software company in Pakistan to obtain Carnegie Mellon's Software Engineering Institute ("SEI") Capable Maturity Model ("CMM") Level 4 assessment in 2004 and CMMi Level 5 now in 2006.

#### COMPANY BUSINESS MODEL

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

#### *Achieving Software Maturity and Quality Assurance.*

NetSol, from the outset, invested heavily in creating a state of the art, world-class software development capability. A series of QA initiatives resulted in both ISO 9001 certification as well as CMMi level 5 assessment. These assessments solidify NetSol's project delivery ability as well as permit the Company to target market segments consisting of organizations and corporations who prefer to work with software providers having the ultimate quality standard, CMMi Level 5 rating. Achieving these CMMi targets required dedication by all levels of the Company.

Software Engineering Institute's ("SEI") CMMi, which is organized into five maturity levels, has become a de facto 'Gold Standard' for assessing and improving software processes. Through the CMMi, SEI and the software development community have established an effective means for modeling, defining, and measuring the maturity of the processes used by software professionals. The CMMi for software describes the principles and practices underlying software process maturity and is intended to help software organizations improve the maturity of their software processes in terms of an evolutionary path from ad hoc, chaotic processes to mature, disciplined software processes. Mature processes meet standardized software engineering methods and are integratable into a customer's system. Mature processes ensure enhanced product quality resulting in faster project turn around and a shortened time-to-market. In short, a mature process would, ideally, have fewer bugs and integrate better into the customer's system.

The Company has always strived to improve quality in every aspect of its business. This quality drive, based on the Company's vision, trickles from the top to the lowest levels in the organization. The Company believes that it is this quality focus that enabled the Company's software development facility to become the first ISO 9001 certified software development facility in Pakistan in 1998. This accomplishment marked the beginning of the Company's continuing long term program towards achieving the higher challenges of SW-CMMi. Thanks to the dedication of the Company's employees, it is the first ever to reach CMMi level 5 in Pakistan. Achieving the ultimate quality standard of CMMi Level 5 has been one of the most significant milestones in the history of NetSol and the company now joins the ranks of select club of global IT giants like IBM, Boeing, Infosys, Lockheed Martin etc. offering the highest quality of products and services. According to SEI there are less than 100 companies in the world claiming certification of CMMi Level 5.

### *Professional Services*

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 bespoke software development, software analysis and design, testing services, off shore as well as onsite quality assurance services, consultancy in quality engineering and process improvement including assistance in implementation of ISO and CMMi quality standards, Business Process Reengineering, consultancy in Basel-II, Business intelligence, information security, systems integration, System Reengineering, Maintenance and support of existing systems and Project Management.

Outsourcing involves operating all or a portion of a customer's technology infrastructure, including systems analysis, system design and architecture, change management, enterprise applications development, network operations, desktop computing and data center management.

Systems integration encompasses designing, developing, implementing and integrating complete information systems.

IT and management consulting services include advising clients on the strategic acquisition and utilization of IT and on business strategy, operations, change management and business process reengineering.

The experience gained by the Company through its own software quality endeavors, has enabled the Company to offer consultancy services in the areas of Software Quality, Process Improvement, ISO Certification and SW-CMMi Implementation. ISO certification and CMMi services include, but are not limited to: GAP Analysis against the standard ISO/CMMi; Orientation Workshops; Guiding the Implementation of the plan developed after the GAP Analysis; Training on Standard Processes; Process implementation support off-site and on-site; assessment training; and, assistance through the final assessment (Certification Audit for ISO). NetSol was chosen by the Pakistan Software Export Board under the direction of the Ministry of Information Technology and Telecommunication to provide consultancy to local software houses. Management believes this demonstrates that NetSol has not only led the way in setting standards for the IT industry in Pakistan, but is instrumental in assisting local companies to achieve quality standards.

NetSol has expanded its service offerings to Basel II consulting services and Enterprise Resource Planning (ERP) solutions. In view of the new Basel II Accord, NetSol has formed a strategic alliance with SunGard to provide Basel II consulting services. Based on NetSol's experience in integrating diverse systems, applications and platforms, we are well placed to provide ERP solutions, Asset Management Solutions and Business Intelligence Solutions. Within the Business Intelligence domain NetSol provides integration facilities in Enterprise Risk Management Systems, Strategic Performance Management Systems, Credit Scoring for Banking and Telecom, Analytical CRM (Customer Relationship Management) as well as Activity Based Management (ABM) Solutions. NetSol integrates the industry standard ERP packaged solutions. NetSol's ERP Solutions and Services focuses towards an improved Business and Technology Architectures that enhances operational efficiency, strengthens risk management capability and improves

customer relationships. Being a certified Oracle Partner, NetSol not only provides consulting, implementation and system integration services for Oracle products but also develops and sells NetSol's own products on the Oracle technology platform, as an Independent Software Vendor (ISV). The well-defined ERP activity not only encompasses the development aspect but also provide scrupulous training sessions that ensure custom tailored Training Services for all available ERP based Solutions to its valuable clients.

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## LeaseSoft

The Company develops advanced software systems for the lease and finance industries. NetSol has developed "LeaseSoft" a complete integrated lease and finance package.

LeaseSoft, a robust suite of four software applications, is an end-to-end solution for the lease and finance industry. The four applications under LeaseSoft have been designed and developed for a highly flexible setting and are capable of dealing with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments.

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

*The constituent software applications are:*

- LeaseSoft Electronic Point of Sale (LeaseSoft.ePOS). LeaseSoft.ePOS is a web-based point of sale system for the use of dealers, brokers, agents, and sales officers to initiate credit applications. Although a web-based system, it can be used with equal efficiency on an intranet. Its real ability is to harness the power of the Internet to book sales. LeaseSoft.ePOS users create quotations and financing applications (Proposals) for their customers using predefined financial products. The application is submitted to the back office system (such as LeaseSoft.CAP) for approval. After analysis, the application is sent back to the LeaseSoft.ePOS system with a final decision.
- Credit Application Processing System (CAP Formally known as Proposal Management System, PMS) LeaseSoft.CAP provides companies in the financial sector an environment to handle the incoming credit applications from dealers, agents, brokers and the direct sales force. LeaseSoft.CAP automatically gathers information from different interfaces like credit rating agencies, evaluation guides, and contract management systems and scores the applications against defined scorecards. This mechanized workflow permits the credit team members to make their decisions more quickly and accurately. Implementation of LeaseSoft.CAP dramatically reduces application-processing time in turn resulting in greater revenue through higher number of applications finalized in a given time. LeaseSoft.CAP reduces the probability of a wrong decision thus, again, providing a concrete business value through minimizing the bad debt portfolio. LeaseSoft.CAP is a database independent online system developed in Microsoft's .Net framework. Toyota Leasing Thailand and BMW Financial Services China are the first two clients of LeaseSoft.CAP. The benefit of LeaseSoft.CAP being an online system is that it can be run from any PC with normal specifications as long as there is an internet connection.
- Contract Management System (CMS). LeaseSoft.CMS provides comprehensive business functionality that enables its users to effectively and smoothly manage and maintain a contract with the most comprehensive details throughout its life cycle. It provides interfaces with company banks and accounting systems. LeaseSoft.CMS effectively maintains details of all business partners that do business with the company including, but not limited to, customers, dealers, debtors, guarantors, insurance companies and banks. Developed with the input of a number of leasing consultants, this product represents a complete lease and finance product. NetSol's LeaseSoft.CMS provides business functionality for all areas that are required to run an effective, efficient and customer oriented lease and finance business.
- Wholesale Finance System (WFS). LeaseSoft.WFS automates and manages the floor plan/bailment activities of dealerships through a finance company. The design of the system is based on the concept of one asset/one loan to facilitate asset tracking and costing. The system covers credit limit, payment of loan, billing and settlement, stock auditing, online dealer and auditor access, and ultimately the pay-off functions.



LeaseSoft is a state of the art software product and is available on both conventional 32 bit architecture hardware as well as high performance 64 bit computers.

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Typically, NetSol's sales cycle for these products ranges between two to five months. NetSol derives its income both from selling the license to use the products, as well as, from related software services. The related services include requirement study/gap analysis, customization on the basis of gaps development, testing, configuration, installation at the client site, data migration, training, user acceptance testing, supporting initial live operations and, finally, the long term maintenance of the system. Any changes or enhancement done is also charged to the customer. In the requirements study/gaps analysis, the NetSol LeaseSoft team goes to the client site to study the client's business and functional requirements and maps them against the existing functionality available in LeaseSoft. LeaseSoft has now reached a stage where hardly, if any gaps, are identified as a result of such a study. In the customization phase, the gaps are made part of LeaseSoft through a development cycle. This development takes place in Lahore, Pakistan. Then the new as per requirement system is thoroughly tested. This phase also takes place in Pakistan. LeaseSoft is a highly parameterized configurable application and hence it is able to be configured according to the business of the customer. This phase can take place both onsite as well as in Lahore but is usually at least partially done in Lahore. Next, follows the installation of the system at client site. If the customer was using some other system and already has data in electronic form, then NetSol's data migration team migrates this data from the old system to the LeaseSoft database. Data migration is a mix of both client site and Lahore based work. The client is also imparted training in the areas of business user training, functional business training and system administration training. Training is followed by user acceptance testing (UAT) where client nominated staff and NetSol consultants test the system against the customer business requirements. After UAT, the system is put in normal business use. LeaseSoft is a mission critical software, and the whole business operations, from the asset side of a finance/leasing company, hinge upon the performance of the system. Hence in the early days after going live, NetSol consultants remain at the client site to assist the company in smooth operations. After this phase, the regular maintenance and support services phase for the implemented software begins. In addition to the daily rate paid by the customer for each consultant, the customer also pays for all the transportation related expenses, boarding of the consultants, and a living allowance. These practices enable NetSol to increase marginal revenue in a proportion larger than the marginal cost incurred.

License fees can vary generally between \$300,000 up to \$1,000,000 per license depending upon the size and complexity of customer's business. There are various attributes which determine the level of complexity, a few of which are: number of contracts; size of the portfolio; business strategy of the company; number of business users; and, branch network of the customer. The Company recognizes revenue from license contracts without major customization when a non-cancelable, non-contingent license agreement has been signed, delivery of the software has occurred, the fee is fixed or determinable, and collectibility is probable. However, revenue from sale of licenses with major customization, modification, and development is recognized on percent of completion basis. Revenue from software services includes fixed price contracts and is recognized in accordance with the percentage of completion method using the output measure of "Unit of Work Completed." The annual maintenance fee, which usually is an agreed upon percentage of overall monetary value of the implementation, then becomes an ongoing revenue stream realized on yearly basis.

As a marketing strategy NetSol is preparing a lighter version of LeaseSoft to target companies with simpler business models. LeaseSoft is highly modular. Hence various sets of functionalities can be used against the restricted requirements of the client. The first deployment of this lighter version is currently being carried out in Mauritius for Mauritius Commercial Bank. NetSol has also provided the option of using its LeaseSoft application on monthly rental basis to those organizations which are small in size or have small turnover. This facility is initially provided to Australian Motor Finance (AMF). AMF is a sub-prime lender in Australia. NetSol has provided them LeaseSoft Proposal Management System and LeaseSoft Contract Management System.

#### *NETSOL US OPERATION - McCue Systems, Inc.*

In June 2006, NetSol acquired the issued and outstanding shares of McCue Systems, Inc., ("McCue") a California corporation located in Burlingame, California.

McCue has 35 years of experience in developing business solutions for the equipment and vehicle leasing industry as a provider of lease/loan portfolio management software for banks, leasing companies and manufacturers. Its flagship product, LeasePak, simplifies lease/loan administration and asset management by accurately tracking leases, loans and equipment from origination through end-of-term and disposition. The LeasePak brand is recognized in the US and Canadian marketplace and is configured to handle the unique tax and regulation requirements of North America. LeasePak is complementary to NetSol's LeaseSoft offering and its geographic specificity complements LeaseSoft in regions in which LeaseSoft does not currently have coverage or domain support knowledge.

McCue provides the leasing technology industry in the development of Web-enabled and Web-based tools to deliver superior customer service, reduce operating costs, streamline the lease management lifecycle, and support collaboration with origination channel and asset partners. LeasePak can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. And for scalability, McCue offers the LeasePak Bronze, Silver and Gold Editions for systems and portfolios of virtually all sizes and complexities. McCue Systems' 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, including Cisco, Hyundai, JP Morgan/Chase, KeyCorp Leasing, Bank of Tokyo Mitsubishi, La Salle National Bank, National City Capital Corp., ORIX, and Volkswagen Credit.

With common customers and common goals, we believe the acquisition of McCue provides a complimentary North American presence to our global offering of software and services to the lease and finance industry. Not only does this provide a U.S. base of operations and footprint for NetSol, but makes NetSol the only company focusing on the commercial and consumer lease/finance marketplace with actual live implementations within nearly every region of the globe, including, U.S., Canada, Europe, Asia-Pacific and the far-East.

*NetSol EUROPE OPERATIONS - NETSOL CQ Ltd., UK.*

In February 2005, NetSol acquired 100% of CQ Systems Ltd., ("CQ") an IT products and service company based in the UK. As a result of this acquisition, NetSol has access to a broad European customer base using IT solutions complementary to NetSol's LeaseSoft product. NetSol plans to leverage CQ's knowledge base and strong presence in the Asset Finance market to launch LeaseSoft in the UK and continental Europe. CQ's strong sales and marketing capability would further help NetSol gain immediate recognition and positioning for the LeaseSoft suite of products.

NetSol has already initiated an active plan to gradually move some of the software production activities at CQ to its offshore development center in Lahore. This phase of the transition plan has been completed whereby a dedicated team of software engineers and testers have been trained on CQ product suite and most of the quality assurance, documentation and some of the CQ products core software development activities have been transitioned to Lahore. While it is expected that a gradual reduction in costs on a like for like basis at CQ will occur, the expected growth in Netsol-CQ Systems business over the next eighteen months, would result in higher level of cost efficiencies for using the Lahore offshore facility for software development and quality assurance.

In November 2005, CQ was re-branded as NetSol-CQ and was launched into the UK market with new branding and logo. This was part of a global strategy to have consistency in our marketing collateral across the globe. All NetSol-CQ products have been re-branded as LeaseSoft and the Enterprise product would now be known as LeaseSoft Asset.

NetSol-CQ continues to invest into enhancing its strong product line. A new version of LeaseSoft Asset was released with DIP (Document Imaging and Processing). A number of new releases are planned over this year and the management has a strong commitment to continue to invest into the LeaseSoft product suite.

NetSol will continue to manage LeaseSoft pre-sales support and deliveries by having two specialized pools of resources for each of the four products under LeaseSoft. One group focuses on software development required for customization and enhancements. The second group comprises of LeaseSoft consultants concentrating on implementation and onsite support. Both groups are being continually trained in the domain of finance and leasing, system functionality, communication skills, organizational behavior and client management.

The Asian continent, Australia and New Zealand, from the perspective of LeaseSoft marketing, are targeted by NetSol Technologies from its Lahore subsidiary and its newly opened offices in Beijing. NetSol UK, both through its base in London and its CQ offices located in Horsham, United Kingdom, focuses on the European market. NetSol UK has also appointed a representative in Denmark to further focus on Denmark as well as the neighboring countries. The

marketing for LeaseSoft in USA and Canada is carried out directly by the Company. NetSol Technologies Limited services and NetSol UK market whenever and wherever required.

NetSol has established a strategy to aggressively market LeaseSoft in various regions of the world. As part of the strategy, NetSol is forming alliances with reputable IT companies and has already appointed distributors in Singapore and Japan. NetSol has entered into a mutually non-exclusive agreement with Singapore Computer Systems (SCS) that allows SCS to market LeaseSoft in the entire Asia Pacific Region. Furthermore, NetSol is looking forward to developing partner networks all across the world with reputable companies.

*Launch of NetSol CQ office in Beijing, China*

As part of the same strategy and focus on marketing LeaseSoft, NetSol established a new sales office in Beijing, China, which acts as the sales and marketing front for NetSol in the People's Republic of China and as the liaison office for its ongoing operations and implementation services for DaimlerChrysler Services, BMW and other clients in the country. The new Asia Pacific office is jointly managed by NetSol Technologies, Inc. and its wholly owned U.K. subsidiary, NetSol-CQ, Ltd.

Management believes that LeaseSoft has begun to be recognized as a unique, world-class product offering. This belief is based on the following instances:

Breakthrough with Toyota in Thailand and China

Breakthrough with BMW in China

- Breakthrough in non-captive finance as evidenced by agreement with Mauritius Commercial Bank in Mauritius
  - It has been recognized as a Solution Blueprint by Intel Corporation. Intel has very stringent technical and market potential criteria for designating a solution as a "solution blueprint"
  - Frame Agreement with DaimlerChrysler Financial Services AG (DCFS)

NetSol's Frame Agreement with DCFS short lists LeaseSoft as a preferred software provider for managing the wholesale and retail side of leasing and finance business of DCFS. DCFS supports the sales of DaimlerChrysler vehicles through financial services.

The current LeaseSoft client base includes DaimlerChrysler Financial Services (Australia, Japan, New Zealand, Singapore, South Korea, Thailand, China and Taiwan), Mercedes-Benz Finance Japan, Yamaha Motors Finance Australia, Toyota Motors Finance China, Toyota Leasing Thailand, Mauritius Commercial Bank. (Finlease Company Limited) and, BMW Financial Services China.

NetSol is the only Leasing and Finance Solution Provider for automotive finance companies providing support to Chinese clients locally from within the branch office in China.

NetSol also maintains a LeaseSoft specific product website [www.leasesoft.biz](http://www.leasesoft.biz)

**Status of New Products and Services**

*InBanking™*

With the acquisition of Pearl Treasury System, whose product offering is now referred to as InBanking™, the Company expands its menu of software into the banking and other financial areas. In 2003, NetSol acquired the intellectual property rights ("IPR") of Pearl Treasury System ("PTS"). PTS was developed to 70% completion in the late 1990s, led by its system designer who had 30 plus years in banking through positions as Trader and Head of Trading, Treasury, Risk, Operations and IT for banks such as Bankers' Trust and Mitsubishi Trust & Banking.

PTS was originally developed on two tier client server technologies and was designed to provide full process automation and decision support in the front, middle and back offices of treasury and capital markets operations. On an internal review of PTS post acquisition, it was decided to re-write the system within .NET technologies, bringing the system into the leading edge n-tier/browser-based environment. The project name for this program is InBanking™, and the Phase One deliverables are nearing completion. InBanking™ has more than 70 person years of development effort and \$4 million already invested.

The tremendous flexibility enabled by the comprehensive data model and multi-tier architectural design of InBanking™ has been fully recognized, identifying the potential to further develop InBanking™ beyond treasury and capital markets. Additionally, InBanking™ is modular and can therefore be implemented as best-of-breed solutions for, as an example, front-office trading, middle office credit or market risk, or back office settlement. InBanking™ can also be implemented to support all these areas, plus others, as a single fully integrated solution.

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InBanking™ provides NetSol with the significant opportunity to gain a sizable share of the treasury, capital markets and wholesale banking systems markets. Following a lull in the banking solution purchase market, caused by Y2K and disasters such as 9/11, market analysts, such as Celent and IBS Publishing, are forecasting significant system replacement activity over the next few years, particularly in the area of treasury management.

The beta version of InBanking is now in the final stages of completion and NetSol is currently seeking a small number of banks and financial institutions to be pilot development partners for the beta version of InBanking™ to support their specific requirements.

#### *LeasePak Productivity Suite*

In 2005, McCue Systems developed a productivity suite as an additional companion set of products to operate in conjunction with the LeasePak licensed software. This is a toolset that enables the LeasePak user to leverage the power of the system to streamline originations, integrate the dealer/vendor network, automate documentation, enhance customer service, manage risk, and control infrastructure overhead.

The components of the productivity suite are:

**Link IT-** A toolkit of application interfaces to streamline the integration of the LeasePak lease portfolio management system with best-of-breed third-party tools and enterprise applications. Designed to work with web services as well as with the client-server architecture, LinkIT streamlines application integration and reduces version-maintenance overhead.

**Doc IT-** The integrated document generation for LeasePak auto-generates the letters and documents required to book and finalize a deal. Using customer private-label graphics and customer existing document formatting, LeasePak generates letters and documents, delivers them, and archives them for instant access throughout the life of the contract, asset, and customer relationship.

**View IT-** A complete business intelligence toolset to give the customer the information required to monitor its lease/loan portfolios. ViewIT provides streamlined strategic reporting, easy-to-use ad-hoc reporting, plus a data warehouse and executive dashboard for real-time strategic information.

**Channel IT-** A web-based front end origination channel manager, ChannelIT provides a browser-based origination tool for use by the remote sales force as well as the broker/dealer network and vendor partners. Using ChannelIT's seamless interface to LeasePak, contract originators and operational personnel have instant access to credit information, terms, and conditions, reducing acceptance times and eliminating costly data re-entry.

**Serv IT-** LeasePak's customer web portal enables users to offer customers the convenience of web-based account self-management. The lessor benefits from reduced help desk costs as customers use the web to, amongst other tasks, check payments, update account information, and request payoff quotes.

#### *NETSOL JOINT VENTURE - NetSolTIG -BRANDED AS EXTENDED INNOVATION OR EI*

In November 2004, the Company entered into a joint venture agreement with The Innovation Group ("TiG") whereby the TIG-NetSol (Pvt) Ltd., a Pakistani company, provides support services enabling TiG to scale solution delivery operations in key growth markets. TiG-NetSol operations are centered in NetSol's IT Village, Lahore, Pakistan. NetSol owns 50.1 percent of the venture, with TiG owning the remaining 49.9 percent. The entities share in the profits of the joint venture on the basis of their shareholding. The outsourcing model between TiG and NetSol involves services pertaining to business analyses, configuration, testing, software quality assurance (SQA), technical communication as well as project management for TiG software. Initiated with a 10 person outsourcing team in Lahore in February



2005, this arrangement has extended to a 80 person team in June 2006 with the additional resources catering to the increased influx of outsourcing of configuration and testing assignments from TiG. Backed up by a dedicated 4Mbps fiber optic link for communication and teleconferencing, this arrangement will allow NetSol's human resources to efficiently and effectively respond to additional outsourcing and offshore configuration work.

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*Growth Through Acquisition and Alliance*

On June 30, 2006, NetSol completed its acquisition of McCue Systems, Inc., a California corporation. McCue Systems, Inc. has over 30 years of experience in developing business solutions for the equipment and vehicle leasing industry as a provider of lease/loan portfolio management software for banks, leasing companies and manufacturers. Its flagship product, LeasePak, simplifies lease/loan administration and asset management by accurately tracking leases, loans and equipment from origination through end-of-term and disposition. With common customers and common goals, we believe the acquisition of McCue provides a complimentary North American presence to our global offering of software and services to the lease and finance industry. McCue is expected to contribute about 25% of U.S. based revenue to the NetSol group revenue in 2007. Netsol now has a solid US operation based in Burlingame, California with over 40 key and established customers in North America and a very seasoned team of 40 personnel led by the founder John McCue as the President of North American Operations.

The recent McCue acquisition, and last year's CQ Systems, Ltd. (now NetSol-CQ) acquisition, marks the implementation of our mergers and acquisition plan developed in mid-2004. In this plan, NetSol management identified mergers and acquisitions as potential methods of capitalizing on the demand of the Company's flagship product, LeaseSoft, on infiltrating previously untapped or under-tapped markets, and as a means of launching its treasury banking software systems. The completion of these acquisitions now provides NetSol with positioning as the only software supplier in the leasing space with a global footprint of installed customers in each geographic region throughout the world. This, together with the visible turnaround in the services and outsourcing sectors in global markets, led to a growth strategy encompassing both organic growth and mergers and acquisitions.

The Company continues to explore mergers and acquisition opportunities with a focus on strategic acquisitions that provide immediate, strong, bottom line benefits. Management believes that an ideal target will fulfill one or many of these criteria: geographic synergy/providing a foot print in a market; unique and/or complimentary product lines; or complimentary or target customers in a previously untapped market. While there is no guaranty that an acquisition which appears to be sound will ultimately benefit the Company, management continues to analyze the price, value and market of any potential target. The model of targeting well established, profitable product companies, within NetSol's domain, management believes, has proven successful with the CQ acquisition. Management believes this model can be replicated over the next three years.

*Growth through Establishing Partners Network*

NetSol is well aware that market reach is essential to effectively market IT products and services around the globe. For this purpose, the Company is looking forward to establishing a network of partners worldwide. These companies will represent NetSol in their respective countries and will develop business for NetSol.

NetSol and McCue are members of the world's largest equipment leasing association, the Equipment Finance Leasing Association of North America or ELA. Boasting more than 1,000 members the ELA is a strong presence in this \$250 billion North American market. Our U.S. Operations CEO, John McCue, is a member of the board of ELA.

### *Strategic Alliances*

NetSol has been a partner with the following global IT leaders:

- Oracle
- Infor / Datastream
- SunGard
- Intaero
- Intel
- Microsoft Gold Partner
- IBM
- Sun Microsystems
- HP
- DaimlerChrysler Services
- The Innovation Group- TiG

LeaseSoft is recognized as a Solution Blueprint by Intel Corporation. Intel has very stringent technical and market potential criteria for marking a solution as solution blueprint. The document is also available online from Intel's website <http://www.intel.com/business/bss/solutions/blueprints/industry/finance/index.htm>

NetSol and Intel Corporation have a strategic relationship that would potentially permit NetSol to market its core product, 'LeaseSoft', through Intel websites. In a joint press release made earlier in 2004, by both NetSol and Intel, both companies would deliver a new Solution Blueprint for its core leasing solution. With the collaboration to create a world-class blueprint for the leasing and finance industry, deployment should become even faster and smoother for our customers. Intel's website defines Intel's Solution Blueprints as detailed technical documents that define pre-configured, repeatable solutions based on successful real-world implementations. Built on Intel® architecture and flexible building block components, these solutions help deliver increased customer satisfaction, lower operating costs, and better productivity.

DaimlerChrysler Services Asia Pacific has established an "Application Support Center (ASC)" in Singapore to facilitate the regional companies in LeaseSoft related matters. This support center is powered by highly qualified technical and business personnel. ASC LeaseSoft in conjunction with NetSol Technologies Ltd. Lahore are supporting DCS companies in seven different countries in Asia and this list can increase as other DCS companies from other countries may also opt for LeaseSoft. In June 2004, the Company entered into a Frame Agreement with DaimlerChrysler AG. This agreement, which serves as a base line agreement for use of the LeaseSoft products by DaimlerChrysler Services AG companies and affiliated companies, represents an endorsement of the LeaseSoft product line and the capabilities of NetSol to worldwide DaimlerChrysler Financial Services (DCFS) entities. This endorsement has had a tremendous impact on our perspective customers, it has helped our sales and Business Development personnel to market and sell our LeaseSoft solution to blue chip customers around the world. This relationship has resulted in new agreements with DCFS and has served as a marketing source which has resulted in agreements with companies such as Toyota and BMW.

With the recent deregulation of Pakistan's telecommunications sector and the government's desire to attract investors to the country, while experiencing an unprecedented increase in exports, Pakistan is keen to build a solid technology infrastructure to support the growth expected over the next several years. The areas within Pakistan which expects to receive major information technology investments by the government are education, public sector automation, railways and the country's armed forces.

NetSol (Pvt) Ltd. has continued to grow its service contracts within the local Pakistani public and defense sectors. An important aspect of these contracts is that not all of them focused solely on software development and engineering.

This year, NetSol has gone a step further by providing both consultancy services to organizations so as to improve their quality of operations and services and, winning strategically important assignments with the E-Governance domains for organizations of national significance in Pakistan including, but not limited to, the Prime Minister's office and the lower and upper houses of Parliament. These clients include private as well as public sector enterprises.

Also, NetSol was successful in consolidating its standing as one of the preferred solutions providers for the Military sector and Defense organizations Government of Pakistan (GoP), Ministry of Defence (MoD) and Armed Forces of Pakistan has taken a renewed approach to outsource their IT projects to local IT industry services and solutions providers. To venture into this Defense business, it was essential to create a dedicated setup within the company to manage business, to deliver complex enterprise military systems and to provide effective after sale technical support and services. NetSol is the first Pakistani IT company which has taken an initiative and made big investments in infrastructure development, capacity building, resource mobilization, quality standards and confidence building measures with potential Defense sector clients. NetSol Defense Division (NDD) of NetSol Technologies Limited was established in January 2006. The business focus of NDD is to provide hi-end indigenous Defense IT solutions with collaboration of local and foreign experts and direct involvement of end users. NetSol will provide all backend / off site Technical Support and Services (TSS).

Currently NDD is working on following military projects:

- . Army Units Management System.
- . Office Automation for Army Headquarters.
- . CBT for Army Schools and Institutes of training.
- . Army Statistical Reporting System.
- . Military HR Management System.

The service offerings of NetSol has now diversified into a comprehensive supply chain of end to end services and solutions catering to private and public sectors, consultancies, applications development, systems engineering integration as well as other supporting processes for turnkey projects. To name a few of NetSol projects in Pakistan are Motor Vehicle Registration System for the province of Punjab and the capital Islamabad, National Assembly and Senate Secretariat of Government of Pakistan, Prime Minister's Secretariat of Government of Pakistan, Hajj automation, computerization of Karachi Patent Office, Electronic Government Directorate, State Bank Pakistan and others.

The new Basel II Accord is a mandate by the Bank for International Settlements (BIS) requiring banks around the world to introduce processes and systems in their organization that will more effectively control and manage their enterprise wide risk. Basel II has introduced "risk differentiation" by allowing banks to hold capital reserves directly proportional to the amount of credit risk they are taking. In addition, the new accord has introduced a capital charge for operational risk. SunGard is the world's number one software company for the financial industry with a comprehensive range of solutions. NetSol forged an alliance with SunGard in April this year and launched its Basel II solution for Banks by holding a seminar jointly with SunGard in Karachi. SunGard is rated as the leader by Gartner in Basel II space and has also received separate awards for each of its credit, market and operational risk solutions. The strong Basel II implementation know-how of NetSol's BI Consulting combined with the world's foremost software in the risk and financial industry makes NetSol the strongest and most proficient Basel II service in Pakistan.

NetSol Connect (Pvt) Ltd., a subsidiary of the Company with ownership of 50.1% by the Company and 49.9% by Akhter Group, is a company capitalizing on the high growth of the telecommunications market in Pakistan. NetSol Connect provides ISP services to clients in the three major cities of Pakistan and is looking to expand its service offerings. NetSol management took this strategic step to maintain its focus in the core business of software development and IT services.

As a direct result of a delay in the PTCL privatization, the state owned telecommunications monopoly, NetSol Connect has faced delays in finalizing cross network pricing and infrastructure rollout. However, the recent completion of the PTCL privatization process would provide some much needed impetus to the rollout plans. A giant UAE based telecom group (Eitesalat) has acquired 26% of PTCL for \$2.6 billion and has already taken over the management control of this state owned telecom giant of Pakistan.



### *Technical Affiliations*

The Company currently has technical affiliations as: a MicroSoft Certified GOLD Partner; a member of the Intel Solution blueprint Program; IBM Business Partner and, an Oracle Certified Partner.

## **Marketing and Selling**

### *The Marketing Program*

NetSol management continues its optimism that the Company will experience ever increasing opportunities for its product offerings in 2007 and beyond. The Company is aggressively growing the marketing and sales organizations in the United Kingdom, in conjunction with NetSol-CQ, in Pakistan and, with the addition of McCue, in the USA. Management believes that the year 2007 will follow 2005 and 2006 as a year for continued growth, the launching of footprints in new markets, and penetration of established markets such as North America, Asia Pacific and Europe.

While affiliations and partnering resulted in potential growth for the Company, marketing and selling remain essential to building Company revenue. The objective of the Company's marketing program is to create and sustain preference and loyalty for NetSol as a leading provider of enterprise solutions, e-services consulting, and software solutions. Marketing is performed at the corporate and business unit levels. The corporate marketing department has overall responsibility for communications, advertising, public relations and the website and, also engineers and oversees central marketing and communications programs for use by each of the business units.

A number of new marketing initiatives have either been launched or are in the pipeline. These programs are designed to create brand awareness and to deliver our message directly to our target group. As the company has evolved in the past three years, the number of product and service offerings has grown manifolds. The depth and breadth of our products and services would be more effectively marketed by participation in more industry events, advertising, holding seminars, delivering keynote addresses and creating more channel distribution.

Our dedicated marketing personnel, within the business units, undertake a variety of marketing activities, including sponsoring focused client events to demonstrate our skills and products, sponsoring and participating in targeted conferences and holding private briefings with individual companies. We believe that the industry focus of our sales professionals and our business unit marketing personnel enhances their knowledge and expertise in these industries and will generate additional client engagements. As the US technology market gradually improves, NetSol marketing teams are concentrating on the markets overseas with cautious entry into the US market.

### *The Markets*

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

Geographically, NetSol has operations on the West Coast of the United States, Central Asia, Europe, and Asia Pacific regions.

During the last two fiscal years, the Company's revenue mix by major markets was as follows:

	2006	2005
Asia Pacific Region (NetSol Technologies Ltd., TiG, NetSol (Pvt.), Abraxas)	55%	64%
Europe (NetSol-CQ, UK Ltd.)	40%	24%
North America (NetSol Technologies, Inc. and McCue Systems, Inc.),	2%	2%
Telecom Sector (NetSol Connect)	5%	9%
Total Revenues	100%	100%

### **Fiscal Year 2005-2006 Performance Overview**

The Company has effectively expanded its development base and technical capabilities by training its programmers to provide customized IT solutions in many other sectors and not limiting itself to the lease and finance industry.

### **NetSol Technologies Ltd. (“PK Tech”)**

Our off shore development facility continues to perform strongly and has enhanced its capabilities and expanded its sales and marketing activities. In May 2004, NetSol inaugurated its newly built Technology Campus in Lahore, Pakistan. The state-of-the-art, NetSol building currently houses over 450 employees and thus has become the backbone of NetSol business model providing world class IT talent and a cost arbitrage that is attractive to western customers.

The Lahore operation supports the worldwide customer base of the LeaseSoft suite of products and all other product offerings. NetSol has continued to lend support to the Lahore subsidiary to further develop its quality initiatives and infrastructure. The development facility in Pakistan, being the engine which drives NetSol, continues to be the major source of revenue generation. The Pakistan operation contributed 45% of the 2006 revenues with \$8.42 million in revenues for the current year with a net profit of \$2.0 million. This was accomplished primarily through export of IT services and product licensed to both the domestic and overseas markets.

During the last year, NetSol received a very positive and over-whelming response from Pakistan market as many new business opportunities emerged from both the public and private sector. This became possible due to the quality standards followed by the Company, its international recognition by the fortune 500 companies, the last ten years' impressive track record of operations and timely delivery to the valued customers and last, but not least, its efforts to be the pioneer in the local capital market. To have more synergic advantage by consolidating both the domestic and overseas operations in one company, the management of NetSol decided to merge the affairs of its subsidiary company NetSol (Pvt) Limited (PK Private) within NetSol Technologies, Limited (PK Tech). Shareholders of the company, in their meeting held on April 28, 2006 approved the proposed merger and subsequently, with the approval of High Court of Lahore, NetSol (Pvt) Limited and its affairs stand merged with its holding company NetSol Technologies Limited as of April 28, 2006.

While available to support its product and services base on a world-wide basis, NetSol Technologies Ltd.'s selling and marketing efforts are focused on Asia Pacific, China and Middle East. In China, the company has established a new business office in the Capital city of Beijing from which it expects to have more business in future.



NetSol has signed on new customers for LeaseSoft as well as for bespoke development services. For LeaseSoft the following new projects were earned by the Company:

- DaimlerChrysler Auto Finance China- Licensing and customization of LeaseSoft PMS, CMS & WFS.
- Toyota Leasing Thailand (TLT) - Licensing, customization and implementation of LeaseSoft CAP, CMS & WFS.
- TLT is a volume leader in captive finance companies in Thailand. NetSol considers it a big strategic break as delivering successfully in Thailand will position NetSol to target Toyota Finance companies around the world.
  - Mercedes-Benz Finance Japan-Licensing and implementation of LeaseSoft WFS.
  - Toyota Motor Finance China- Licensing and implementation of LeaseSoft WFS.
  - Australian Motor Finance - Licensing and implementation of LeaseSoft PMS & CMS.
- BMW Financial Services China - Licensing and implementation of LeaseSoft CAP, CMS & WFS
- Mauritius Commercial Bank, Mauritius- Licensing and implementation of LeaseSoft PMS and LeaseSoft CMS.
  - CMMI Evaluation Consultancy Services for the Pakistan Software Export Board (PSEB).

As a part of Ministry of Information Technology's efforts for the process improvements in the operations of Pakistani software houses, NetSol, under the auspices of PSEB, is actively undertaking exercises for providing consultancy services for different software companies. The key aspects of these services would be CMMI introduction, gap analyses for ISO 9001:2000 compliant procedures, CMMI Level 2/3 pre-assessments, consultancies, evaluations and tracking/analyses of such improvements. The clientele for these NetSol professional services includes: yEvolve Karachi, DPS Islamabad, Shaukat Khanum Memorial Trust (SKMT) Lahore, Extended Innovations, ProSol Islamabad, GeoPac Islamabad, ZhongXing Telecom Pakistan (Pvt.) Ltd, and Avanza Solutions, Karachi.

Management believes that NetSol has been identified as a premium IT company in Pakistan and has recently been informed by the Pakistani Software Export Board, from information provided by the State Bank of Pakistan, that in the fiscal year ending June 30, 2006, IT exports registered with the State Bank of Pakistan (SBP) amounted to US\$ 72.21 million - representing an increase of over 55% from preceding year's exports of US\$ 46.355 million and with its matured products and services, local and international demand is surging. TiG-NetSol is among the top ten highest IT export companies of Pakistan whereas NetSol Technologies Limited is once again on the top of the list with highest exports during the fiscal year 2005-2006. A few of the recently signed agreements in the private and public sectors are:

- Ministry of Religious Affairs - Hajj automation
- Government of Punjab (Motor Transport Management Information System)
- Islamabad Capital Territories - Motor vehicle registration system
- BS7799 Information Security Consultancy by Pakistan Software Export Board
- Ministry of Defense (multiple projects)
- Automation of Karachi Patent Office
- Dawn Group of Companies - Oracle ERP
- Tapal Tea Limited - Oracle ERP

There is a growing domestic business in Pakistan for the IT and IT enabled services, as stated above, and NetSol is strategically positioned to support a very stable and economically beneficial pipeline to win many more and major new projects in the public and private sectors. NetSol will continue to strengthen its position as a dominant IT

solutions provider in this explosive growth market.

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### **Netsol Information Security Services**

With both the ever growing awareness of highly publicized IT security problems coupled with greater demands by international business partners, companies world-wide, are moving towards compliance with internationally recognized Information Security Systems Standards. Information Systems Security or Information Assurance applies to *all* systems in *all* departments of an organization, whether on computer disk, paper or in the heads of employees.

Recognizing this business opportunity, Netsol has established a new business unit called Information Security Services. The unit will provide services to secure all corporate information and their supporting processes, systems and networks.

NetSol is partnering with a recognized global leader in information security to execute its aggressive business plans. In fact, the Information Security Services has already signed two contracts to provide BS7799/ISO27001 consultancy to established IT companies under the umbrella of Pakistan Software Export Board. The work has already started on these projects and is expected to be completed within 12 months.

Information Security Services unit will be offering both professional and managed security services such as ISO 27001 ISMS implementation services, real-time security monitoring, business continuity planning. Information Security Services will help organizations lower operating costs improve regulatory compliance and provide integrity for their network systems.

### **NetSol Technologies UK**

NetSol Technologies Limited, the Company's UK subsidiary, was formed in Fiscal 2003. Located in the heart of London, one of the world's major banking and finance centers, the subsidiary is responsible for the Company's activities in the UK, Europe and Middle East and includes the spearheading of the sales and marketing efforts for InBanking™, NetSol's treasury and wholesale banking solution; plus ongoing marketing and sales of the LeaseSoft portfolio of leasing solutions and NetSol's range of on and off-shore IT services.

The London office of NetSol UK Ltd. continues to seek mergers and acquisition targets, joint ventures, like TIG, and new partnerships. The office is also actively involved in financing as well as investor relations. A number of new initiatives are planned for fiscal year 07. A new marketing program would be launched in September to sell the outsourcing model perfected with the Extended Innovations business with TIG. The program would be launched with presentations to a number of key prospects in the US and the UK.

With the acquisition of CQ Systems, Ltd., now NetSol-CQ, the Company has added a complimentary suite of leasing products. NetSol-CQ was established in 1986 and provides robust, powerful, scalable and safe contract management and accounting solutions for the installment credit, motor finance and asset finance markets. The modules provide an end-to-end contractual solution - from underwriting, contract administration and accounting through to asset disposal and re-marketing. Today NetSol-CQ has more than 55 banking, independent and captive finance house clients in the UK, Europe, Africa and Asia. The revenue generated by NetSol-CQ from the date of acquisition (Feb 21 to June 30, 2006) was \$8.59 million, or 25% of the Company's total revenues. The net income before tax reported for the same period was about \$728,000. In terms of NetSol-CQ stand alone revenues for year 2005-2006, the revenues were \$5.4 million. NetSol-CQ signed two new customers during fiscal year 2006; Investec Bank (UK) Limited and General Capital Group, PLC.

Subsequent to the CQ Systems acquisition, it was decided to use NetSol UK as a marketing arm of the Lahore subsidiary and mergers and acquisition arm of the Company.

Depending solely upon organic growth, the UK company produced \$2 million in revenue for the current fiscal year or 11% of the Company's total revenues. The net income reported was approximately \$528,000. The main focus of this entity is to market the array of banking and leasing solutions in the heart of the financial district in London and the rest of Europe.

### **TiG-NetSol (Pvt) Limited, Joint Venture**

As disclosed before, the newly formed outsourcing joint ventures of NetSol with a UK based IT solutions provider TiG, Plc. contributed approximately \$1.6 million in revenue during the current fiscal year or 9% of the Company's revenues. The total net profit was approximately \$879,000 before adjusting the minority interest; NetSol owns 51% while TiG owns 49% of the JV.

Extended Innovation (EI) is the business name used for the joint venture TiG-NetSol (Pvt) Limited. TiG is a United Kingdom based public listed company committed to delivering innovative solutions to some of the big names in insurance and related industries all around the world. EI is based in software Technology Park in Lahore to take advantage of lower costs and high education standards in Pakistan.

As of June 2006, EI has 80 full time highly skilled employees trained in software and insurance domain. Extended Innovation consultants work with TiG Claims Management clients in United States, Canada and United Kingdom. These clients include Cendant, AllState and motor Care. EI consultants travel around the globe to provide services to TiG's clients on-site. By providing dedicated resources at a lower cost base to TiG customers, EI assures that TiG solutions are supported with well-trained staff at a price that is extremely competitive in the global market. With oversight and training from NetSol, EI will maintain high quality standards and conform to worldwide accepted quality practices of CMMI.

The success of the EI business has attracted a great deal of attention from within the Innovation Group. There are plans to significantly grow the strength at EI to enable the business to offer a broader range of capabilities. We expect this business to continue to grow this fiscal year both in revenues and profits.

### **NetSol Connect (Pvt) Limited**

In August 2003, NetSol entered into an agreement with United Kingdom based Akhter Group PLC (Akhter). Under the terms of the agreement, Akhter Group acquired 49.9% of the Company's subsidiary; Pakistan based NetSol Connect (Pvt) Ltd., an Internet service provider (ISP) in Pakistan. In fiscal year 2004, NetSol Connect steadily grew its presence in three cities (Karachi, Lahore and Islamabad) by acquiring a small Internet online company called Raabta Online. This created a national presence for wireless broadband business in key markets that have experienced explosive growth. NetSol Connect with its new laser and wireless technologies has a potential to become a major brand in Pakistan. The partnership with Akhter Computers is designed to rollout the services of connectivity and wireless to the Pakistani national market.

Akhter, one of the oldest established computer companies in the UK, is well recognized as a provider of managed Internet services, integrated networks, both local area networks and wide area networks, as well as metropolitan area networks within the UK. Akhter owned proprietary broadband technologies and solutions provides NetSol Connect a technologically strong platform for strengthening its telecommunications infrastructure within Pakistan with a goal of becoming a leading provider of broadband Internet access to both residential and commercial users.

NetSol Connect (Pvt) Ltd. will continue to aggressively seek revenues to growth. The revenue contribution for NetSol Connect was \$887,000 or about 5% of 2006 revenues. The total net income was \$14,000 before adjusting the minority interest.

### **LeaseSoft Sales**

LeaseSoft received a major recognition when DaimlerChrysler Financial Services (DCFS) AG, Germany signed a global frame agreement with NetSol for LeaseSoft. Under the terms of the open-ended global frame contract, LeaseSoft is named as one of the strategic, asset-based, finance software solutions for DCFS.

Within the DCFS locations, the Global Frame Agreement was responsible for the following additional sales of LeaseSoft in the year ended June 30, 2006: licensing and implementation of LeaseSoft PMS, CMS and WFS for DaimlerChrysler Auto Finance China; and, Licensing and Implementation of LeaseSoft WFS for Mercedes Benz Finance Japan.

Other than DCFS, NetSol was also successful in entering into agreements with new customers in the region. A major breakthrough was Toyota Leasing Thailand allowing NetSol to offer and provides services to another leader in the region's automotive markets. This arrangement was later extended to a second Toyota client in China (Toyota Motors Finance China (TMFCN)). New customers included: licensing and implementation of WFS, CMS and PMS for Toyota Leasing Thailand; licensing and implementation of LeaseSoft for Toyota Motors Finance China; and, licensing and implementation of LeaseSoft PMS and CMS for Mauritius Commercial Bank, Mauritius.

## **Technology Campus**

The Company broke ground for its Technology Campus in January 2000 with a three-phase plan of completion. Initially, the Company anticipated the completion of Phase One by fall 2001, but due to the delay in financing, and other macro and micro challenges facing the Company, the completion was delayed. The Technology Campus was completed in May 2004 and the Lahore operations relocated to the facilities in May 2004. The facility was formally inaugurated by the Prime Minister of Pakistan H.E. Shaukat Aziz on March 4, 2005. By relocating the entire Lahore operation from its previously leased premises to the Campus, the Company saves approximately \$150,000 annually. The campus has been declared as Software Technology Park by the Government of Pakistan. The Government has also financed the linking of the campus with the high speed fiber optic backbone capable of providing 155 MB internet bandwidth. The Internet bandwidth is effectively utilized to offer state of the art video conferencing and VOIP (Voice over IP) facilities for effective and seamless communication with our global customer base. The campus site is located in Pakistan's second largest city, Lahore, with a population of six million. An educational and cultural center, the city is home to most of the leading technology oriented academia of Pakistan including names like LUMS, NU-FAST & UET. These institutions are also the source of quality IT resources for the Company. Lahore is a modern city with very good communication infrastructure and road network. The Technology campus is located at about a 5-minute drive from the newly constructed advanced and high-tech Lahore International Airport. This campus is the first purpose built software building with state of the art technology and communications infrastructure in Pakistan. The investment made by the company in developing this technology campus is proving to be highly effective in attracting new business not only from global blue chip customers but also from the fast developing Pakistan market.

## **People and Culture**

The Company believes it has developed a strong corporate culture that is critical to its success. Its key values are delivering world-class quality software, client-focused timely delivery, leadership, long-term relationships, creativity, openness and transparency and professional growth. The services provided by NetSol require proficiency in many fields, such as software engineering, project management, business analysis, technical writing, sales and marketing, communication and presentation skills. Every one of our software developers is proficient in the English language. English is the second most spoken language in Pakistan and is mandatory in middle and high schools.

To encourage all employees to build on our core values, we reward teamwork and promote individuals who demonstrate these values. NetSol offers all of its employees the opportunity to participate in its stock option program. Also, the Company has an intensive orientation program for new employees to introduce our core values and a number of internal communications and training initiatives defining and promoting these core values. We believe that our growth and success are attributable in large part to the high caliber of our employees and our commitment to maintain the values on which our success has been based. NetSol worldwide is an equal opportunity employer. NetSol attracts professionals not just from Pakistan, where it is very well known, but also IT professionals living overseas.

Management believes it has been successful in capitalizing on the "Reverse Brain Drain" phenomenon whereby it has been able to attract and retain highly qualified and suitably experienced IT and management professionals working overseas and returning to Pakistan. These include senior management as well as software development professionals that directly contribute to the organization's improvement of various engineering processes and procedures at NetSol.

NetSol believes it has gathered, over the course of many years, a team of very loyal, dedicated and committed employees. Their continuous support and belief in the management has been demonstrated by their further investment of cash. Most of these employees have exercised their millions of stock options during very difficult times for the Company. Management believes that its employees are the most invaluable asset of NetSol. The Company's survival in the most challenging times is due, in part, to their dedication towards continuous achievement of highest quality standards and customer satisfaction. With each acquisition, NetSol is able to combine both work forces. For example, NetSol and CQ Systems have effectively and swiftly integrated the culture, systems and processes creating an

environment satisfactory for its employees.

Overall, NetSol as a global IT company has over 30% female employees with the biggest concentration in our development facility in Lahore and in the U.S. headquarters. The Company is an equal opportunity employer. Being a successful company with a well respected name in the business community, NetSol encourages its employees to actively participate and contribute to charitable contributions for catastrophic tragedies such as Tsunami disaster and the Gulf Coast disaster caused by Katrina Hurricane in the US and the October 2005 earthquake in Pakistan.

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

As of June 30, 2006, we had 708 full-time employees; comprised of 498 IT project personnel in Pakistan, UK, Australia, and US; and 210 non-IT personnel in Pakistan, UK, Australia and US. The non-IT personnel include 38 employees in sales and marketing and 168 in general and administration. There are a total of 4 part-time employees and the rest are full time-employees. None of our employees are subject to a collective bargaining agreement. Our telecom subsidiary NetSol Connect has 70 full time employees based in Karachi, Pakistan.

### **Competition**

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

In the LeaseSoft business space, the barriers to entry are getting higher. The products are getting more cutting edge and richness in functionality is paramount. Older companies have prolonged the life of their legacy products by creating web-based front ends, while the core of the systems has not been re-engineered.

Our competitors have not been as active in mergers and acquisitions as NetSol. This is mostly due to lack of funding for such acquisitions as most of the companies are privately held. Start ups have to gain traction over several years to make their products more robust and scalable and therefore find it difficult to compete on price and functionality. Additionally, our competition mostly are based in high cost locations in the US, UK and Europe as opposed to NetSol with its facility in Lahore. NetSol is now the only company in the leasing and finance solution space that provides regional solutions in North America, Europe and Asia Pacific. In addition, it is the only company in this space that is publicly listed and provides an offshore development infrastructure.

Some of the competitors of the Company are International Decisions Systems, EDW, Data Scan, AIPAC, CHP, KPMG, LMK Resources, Systems Innovation (Si3), Bearing Point, Kalsoft, Systems Limited, Oratech Pakistan, TechAccess Pakistan a few others. These companies are scattered worldwide geographically. In terms of offshore development, we are in competition with some of the Indian companies such as Wipro, HCL, TCS, InfoSys, Satyam Infoway and others. Many of the competitors of NetSol have longer operating history, larger client bases, and longer relationships with clients, greater brand or name recognition and significantly greater financial, technical, and public relations resources than NetSol. Existing or future competitors may develop or offer services that are comparable or superior to ours at a lower price, which could have a material adverse effect on our business, financial condition and results of operations.

### **Customers**

Some of the customers of NetSol include: DaimlerChrysler Services AG; DaimlerChrysler Asia Pacific - Singapore; Mercedes-Benz Finance - Japan; Yamaha Motors Finance - Australia; DaimlerChrysler Financial Services-Taiwan; Debis Portfolio Systems - UK; DaimlerChrysler Financial Services - Australia; DaimlerChrysler Leasing - Thailand; DaimlerChrysler Financial Services - South Korea; UMF Leasing Singapore; MCB Mauritius; Toyota Leasing Thailand; Toyota Motors Finance China; BMW Financial Services - China; Australian Motor Finance- Australia and,

DaimlerChrysler Services New Zealand. In addition, NetSol provides offshore development and testing services to Innovation Group Plc UK and their blue chip global insurance giants like Allstate, Cendent, etc. NetSol is also a strategic business partner for DaimlerChrysler (which consists of a group of many companies), which accounts for approximately 11% of our revenue. Toyota Motors (which consists of a group of many companies) accounts for approximately 12% of our revenues. No other individual client represents more than 10% of the revenue for the fiscal year ended June 30, 2006.

Some of McCue Systems, Inc., U.S. customers include: Volkswagen Credit U.S. & Canada; Cisco Capital; Hyundai Motor Finance; Keycorp Leasing; Bank of Tokyo Mitsubishi; Chase Equipment Finance; and, National City Commercial Credit.

As compared to the previous year, NetSol Technologies, Ltd. was able to materialize a number of services contracts within the local Pakistani public and defense sectors. An important aspect of these contracts is that not all of them were solely focusing on software development and engineering. This year, NetSol, has gone a step further by providing consultancy services to organizations so as to improve their quality of operations and services in addition to winning strategically important assignments within the E-Governance domain for organizations of national significance in Pakistan, including, Prime Minister's office and the lower and upper houses of Parliament. These clients include private as well as public sector enterprises. Also, NetSol was successful in consolidating its standing as one of the preferred solutions provider for the Military sector and Defense organizations. The NetSol service portfolio has now diversified into a comprehensive supply chain of end to end services and solutions catering to BPR, consultancies, applications development, and systems engineering integration as well as other supporting processes for turnkey projects.

### **The Internet**

The Company is committed to regaining and extending the advantages of its direct model approach by moving even greater volumes of product sales, service and support to the Internet. The Internet provides greater convenience and efficiency to customers and, in turn, to the Company. The Company receives 150,000 hits per month to [www.NetSoltek.com](http://www.NetSoltek.com). The Company also maintains a product specific website for LeaseSoft at [www.leasesoft.biz](http://www.leasesoft.biz). The website for CQ Systems is [www.CQSystems.com](http://www.CQSystems.com).

The website for McCue Systems, Inc. is [www.mccue.com](http://www.mccue.com).

NetSol's software development and SQA team as well as its clients use its web based customer relationship management solution (HelpDesk) for timely and direct communication during the support and maintenance phases through its Web sites, customers, potential customers and investors can access a wide range of information about the Company's product offerings, can configure and purchase systems on-line, and can access volumes of support and technical information about the Company. More details can be found on <http://www.netsolhelp.com>.

### **Operations**

The Company's headquarters are in Calabasas, California. Nearly 70% of the production and development is conducted at NetSol in Lahore, Pakistan. The other 15% of development is conducted in the Proximity Development Center or "PDC" in Horsham, UK to cater to the UK and European customers as well as 15% at the U.S. development facility located in the Silicon Valley area of California. The marketing effort is shared and coordinated between the primary divisions operating at NetSol Technologies Ltd in Lahore, Pakistan, NetSol UK, NetSol-CQ in the UK, and McCue Systems, Inc in the U.S. It is anticipated that US marketing operations will be conducted through the parent and McCue Systems, Inc. These are the core operating companies engaged in developing and marketing IT solutions and software development and marketing. An initiative is underway to unify the look and feel of all advertising, branding and marketing material.

NetSol UK, together with NetSol-CQ, services and supports the clients in the UK and Europe. NetSol PK services and supports the customers in the Asia Pacific and South Asia regions. McCue Systems, together with the parent, will support all of the North American customers.

A significant portion of the software is developed in NetSol's world class and state of the art technology campus in Lahore, Pakistan. This facility which is the engine and nerve center for NetSol just recently was awarded the highest

gold standard of CMMI level 5. Despite of the global unrest due to the Iraq war and international terrorism, as well as economic pressure due to skyrocketing oil prices, the economy of Pakistan has made a positive turn around. The economy of Pakistan has grown to over 8.6% in 2005 and it is expected to sustain the same trend for years. For the first time in the history of Pakistan, the foreign exchange reserve has exceeded \$13.0 billion in comparison with just below \$2.0 billion in 2000. There has been a massive surge in FDI or foreign direct investments in Pakistan by foreigners. These investments have been in many sectors, to name a few: industrial infrastructure, telecom, oil & gas, stock market and real estate. The stock market in Pakistan is the most bullish in the Asia Pacific region with market growth over 600% year to date (Karachi Stock Exchange on October 18, 2001 was at 1,103 points vs. about 9,700 in recent times). Pakistan, now a close US ally, is recognized by the western world as becoming very conducive and attractive for foreign collaboration and investments. The breakthrough 'thawing' of relationships between Pakistan and its biggest democratic neighbor, India, has stabilized the South East Asia region. This environment has raised the comfort and confidence of foreign investors and major US and European corporations to enhance their businesses in Pakistan. Due to many strategic measures and decisions by the government of Pakistan, the telecom sector has been privatized. Several new foreign telecom giants have made some serious investments in Pakistan. The biggest example is an U.A.E. based Telecom giant 'EITESALAAAT' which acquired 26% or management control of 'PTCL' a government owned telecom company. This reflects a true potential and tremendous growth opportunities in Pakistan. There has been a surge of international investors cashing on the growing privatization of some significant national assets and state run industries. This projects a very positive image and makes Pakistan a most conducive economy into which to invest. According to a report from World Bank ranking, most rank Pakistan as the 60<sup>th</sup> country in the ease of doing business ahead of both China and India.

The IT and telecommunication sector is the fastest growing sector in Pakistan mostly due to growing privatization, relaxed policies and a 15 year tax holiday on IT exports of services and products. These policies have strongly encouraged companies, like NetSol, to enhance its infrastructure and develop a solid and formidable team of IT professionals.

The Company is in an extremely strong position to continue to use this offshore model, which includes competitive price advantage to serve its customers. Due to all major improvements economically, politically and regionally, Pakistan's perception is improving drastically in recent months. A few major names such as Microsoft, Oracle, Cisco, Tata Consulting Services (India) and many other major names have recently signed agreements for collaboration and alliances with Pakistani companies. NetSol's few major successes achieved in 2006 were:

- \* A successful acquisition of McCue Systems, Inc. in Burlingame, California
- \* Seamless integration of CQ Systems with NetSol.
- \* Launch of Beijing office in China and acquisition of three major auto customers based in China: Daimler Financial Services, Toyota Leasing and BMW China.
- \* A successful Joint Venture with NetSol and TIG to use the offshore development model
- \* A global frame agreement with Daimler Credit Services
- \* Adding blue chip customers such as Toyota Leasing Thailand, Investec UK and, Hyundai N.A

A major blue chip US bank, Lehman Brothers, recently issued an industry report covering IT and BPO space in the emerging markets of S.E Asia under title 'New New Markets' and highlighted Pakistan in general and NetSol in specific as the growth and emerging markets. This report was based on extensive due diligence and research by the research group of Lehman Brothers. The report projects Pakistan as a more favorable place to do business and profiled NetSol as the best IT company. This report addresses the country risks quite fairly and rated as 'favorable' country to do business and the next emerging IT destination.

Some other US publications such as Newsweek, Asia Edition in March 2006 did an extensive story on 'Pakistan Promise' also highlighting the economic fundamentals and buoyancy with great optimism. NetSol was also profiled in this article as the fastest growing and the number one IT company there.

Just recently Moody's International assessed Pakistan as less vulnerable than many countries in the Asia Pacific region. Also, Standard & Poor's rating on Pakistan has been improved to positive. The present government has taken major bold steps to attract new foreign investment and bolster the local economy. The confidence of the local investors and foreign investors has been undoubtedly enhanced resulting in stronger demand of new listing in the stock markets. Also recently the telecom sector received a boost when the IT ministry was able to successfully auction two new mobile phones licenses for a total of \$592 million to two European Telecom conglomerates. This was a landmark development and it simply underscores the confidence and growing interest of foreign companies in investing in Pakistan.

The specific successes achieved from the acquisitions of CQ Systems and McCue Systems endorses the fact that Pakistan is a safe place to do business when compared to many other troubled spots in the Middle East. The joint venture with TIG is another major example as tens of US and UK customers of TIG-UK now receive world class service from NetSol Pakistan. In all the above cases, their teams went through extensive due diligence by actually visiting Pakistan and chose to transfer their development to Pakistan.

Despite the overall positive outlook for Pakistan, the company is quite prepared in any contingency to use alternate development facilities located in Beijing, Horsham (UK), Burlingame (USA) and Adelaide (Australia). These locations mitigate any underlying risk due to any geopolitical crises.



## **Organization**

NetSol Technologies, Inc. (formerly NetSol International, Inc.) was founded in 1997 and is organized as a Nevada corporation. The Company amended its Articles of Incorporation on March 20, 2002 to change its name to NetSol Technologies, Inc.

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) raise funds for continued operations and growth; (c) make a major entry in the US market and, (d) streamline sales and marketing efforts in the Asia Pacific region, Europe, Japan and Australia. However, management's outlook for the continuing operations, which has been consolidated and has been streamlined, remains optimistic and bullish. With continued emphasis on a shift in product mix towards the higher margin consulting services, the Company anticipates to be able to continue to improve operating results at its core by reducing costs and improving gross margins. Management is very excited and positive about a seamless transition and integration of CQ Systems with NetSol front end and back end operations.

## **Intellectual Property**

The Company relies upon a combination of nondisclosure and other contractual arrangements, as well as common law trade secret, copyright and trademark laws to protect its proprietary rights. The Company enters into confidentiality agreements with its employees, generally requires its consultants and clients to enter into these agreements, and limits access to and distribution of its proprietary information. The NetSol logo and name, as well as the LeaseSoft logo and product name have been copyrighted and trademark registered in Pakistan. The Company intends to trademark and copyright its intellectual property as necessary and in the appropriate jurisdictions.

## **Governmental Approval and Regulation**

Current Company operations do not require specific governmental approvals. Like all companies, including those with multinational subsidiaries, we are subject to the laws of the countries in which the Company maintains subsidiaries and conducts operations. Pakistani law allows a tax exemption on income from exports of IT services and products up to 2016. While foreign based companies may invest in Pakistan, repatriation of their investment, in the form of dividends or other methods, requires approval of the State Bank of Pakistan. The present Pakistani government has effectively reformed the policies and regulations effecting foreign investors and multinational companies thus, making Pakistan an attractive and friendly country in which to do business.

## **Research and Development**

In anticipation of an upcoming World Bank funded program, NetSol Pakistan has been proactively undertaking a Research and Development exercise to develop a proof of concept for “computerization of Land Records Management Information System (LRMIS)”. NetSol’s LRMIS is developed after thorough evaluations of existing manual system and client/user needs, detailed system analysis and process flow definition. It automates various land record management registers and is programmed to generate key reports on multiple parameters. Overall it provides the benefits of timely data availability, data transparency and accuracy, cost effectiveness, easy transaction tracking and better decision making using IT-enablement in a field where its need is hugely felt.

**ITEM 2 - PROPERTIES***Company Facilities*

The Company's headquarters have been located at 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302 since 2003. It is located in approximately 1,919 rentable square feet, with a monthly rent of \$4,317. The lease is a one-year lease expiring in December 2006.

Other leased properties as of the date of this report are as follows:

Location/Approximate Square Feet		Purpose/Use	Monthly Rental Expense
Australia	1,140	Computer and General Office	\$ 1,380
Beijing	188	General Office	\$ 1,900
Burlingame (McCue Systems)	9,554	Computer and General Office	\$ 20,552
Horsham (NetSol-CQ)	6,570	Computer and General Office	\$ 10,989
London (United Kingdom)	378	General Office	\$ 6,581
NetSol (Karachi Office)	1,883	General Office	\$ 1,726
NetSol (Islamabad Office)	3,240	General Office & Guest House	\$ 1,417
NetSol (Rawalpindi Office)	1,112	General Office	\$ 800

The Australia lease is a three-year lease that expires in September 2007 and currently is rented at the rate of \$1,380 per month. The Beijing lease is a one year lease that expires in July 2007. The monthly rent is \$2,280 per month with the first two months free bringing the average monthly rent to \$1,900 per month. Our London, UK operations are currently conducted in leased premises operating on one year lease commencing April 28, 2006 with current rental costs of approximately \$6,581 per month. The NetSol-CQ System facilities, located in Horsham, United Kingdom, are leased until June 23, 2011 for an annual rent of £75,000 (approximately \$131,871.15). McCue Systems, located in Burlingame, California are leased until June 30, 2007 with a monthly rent of \$20,552.

The NetSol Karachi lease is a 3 year lease that expires on December 4, 2008 and currently is rented at the rate of \$1,726 per month. The NetSol Islamabad lease is a 15 year lease that expires on August 31, 2016 and currently is rented at the rate of \$1,417 per month. The NetSol Rawalpindi lease is a 2 year lease that expires on January 4, 2008 and currently is rented at the rate of \$800 per month.

Upon expiration of its leases, the Company does not anticipate any difficulty in obtaining renewals or alternative space.

*Lahore Technology Campus*



The newly built Technology Campus was inaugurated in Lahore, Pakistan in May 2004. This facility consists of 50,000 square feet of computer and general office space. This facility is state of the art, purpose-built and fully dedicated for IT and software development; the first of its kind in Pakistan. Title to this facility is held by NetSol Technologies Ltd. and is not subject to any mortgages. The Company also signed a strategic alliance agreement with the IT ministry of Pakistan to convert the technology campus into a technology park. By this agreement, the IT ministry has invested early 10 million Rupees (approximately \$150,000) to install fiber optic lines and improve the bandwidth for the facility. In order to cater for future business expansion and taking advantage of depressing real estate market, the company purchased two new cottages adjacent to its main building. Total covered area of these cottages is 4,900 sq feet and it cost was \$250,000 approx. The management has moved its accounts, finance, internal audit, company secretariat and costing and budgeting department into these cottages. For the recreation of its valuable resources, the management has also established a gymnasium there.

### **ITEM 3 - LEGAL PROCEEDINGS**

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

**ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

NetSol conducted its annual meeting of shareholders on April 21, 2006. The following are the items that were voted upon.

## 1. Election of Directors

The following persons were elected directors of the Company to hold office until the next Annual General Meeting of the Shareholders. The following sets for the voting tabulation for each director:

Director	Voted	Withhold	Percent of Total Voted	Total Shares Voted
Najeeb Ghauri	11,753,916	56,074	99.52	11,809,990
Naeem Ghauri	11,770,821	39,169	99.67	11,809,990
Salim Ghauri	11,770,841	39,149	99.67	11,809,990
Jim Moody	11,783,158	26,832	99.77	11,809,990
Shahid Burki	11,777,878	32,112	99.73	11,809,990
Eugen Beckert	11,765,853	44,137	99.63	11,809,990
Derek Soper	11,785,330	24,660	99.79	11,809,990

## 2. Ratification of Appointment of Auditors

Kabani & Company Inc. was appointed as Auditors for the Company to hold office until the close of the next annual general meeting of the Company. The directors were authorized to fix the remuneration to be paid to the auditors. The following sets forth the tabulation of the shares voting for this matter.

Total Shares Voted	For	Against	Abstain	Percent
11,809,990	11,670,935	28,308	0	98.82%

## 3. Adoption of the 2005 Employee Stock Option Plan

The Board of Directors of the Company adopted the 2005 Stock Option Plan (the "Stock Option Plan") subject to acceptance by the shareholders of the Company. This plan offers restricted shares only.

The purpose of the Stock Option Plan is to allow the Company to grant options to directors, officers, employees and service providers, as additional compensation, and as an opportunity to participate in the profitability of the Company. Options will be exercisable over periods of up to ten years as determined by the board of directors of the Company and are required to have an exercise price of no less than the fair market value on the day the option is granted. The total number of shares available under the 2005 Stock Option Plan is 5,000,000. If an award of options expires or is canceled without having been fully exercised or vested, the unvested or canceled options generally will be available again for grants under the awards.

The following sets forth the tabulation of the shares voting for this matter.

Total Shares Voted	For	Against	Abstain	Broker Non-Vote	Percent
11,809,990	6,026,737	187,429	23,130	5,572,694	51.03%

**PART II****ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS; RECENT SALES OF UNREGISTERED SECURITIES****(a) MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

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

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

Fiscal Quarter	2005-2006		2004-2005	
	High	Low	High	Low
1st (ended September 30)	2.36	1.65	1.99	1.09
2nd (ended December 31)	2.39	1.70	2.71	1.14
3rd (ended March 31)	2.19	1.75	2.67	1.82
4th (ended June 30)	2.40	1.63	2.15	1.84

RECORD HOLDERS - As of September 20, 2006, the number of holders of record of the Company's common stock was 219. As of September 20, 2006, there were 17,623,741 shares of common stock issued and outstanding.

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

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLAN**

The table shows information related to our equity compensation plans as of June 30, 2006:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans approved by Security holders	8,585,500(1)	\$2.60(2)	4,161,000(3)
Equity Compensation Plans not approved by Security holders	None	None	None
<b>Total</b>	<b>5,038,000</b>	<b>\$2.60</b>	<b>3,013,667</b>

(1) Consists of 46,000 under the 2001 Incentive and Nonstatutory Stock Option Plan; 1,059,500 under the 2002 Incentive and Nonstatutory Stock Option Plan; 970,500 under the 2003 Incentive and Nonstatutory Stock Option Plan; 4,730,000 under the 2004 Incentive and Nonstatutory Stock Option Plan; and 1,780,000 under the 2005 Incentive and Nonstatutory Stock Option Plan .

(2) The weighted average of the options is \$2.60.

(3)

Represents 941,500 available for issuance under the 2003 Incentive and Nonstatutory Stock Option Plan; and, 3,220,000 available for issuance under the 2005 Incentive and Nonstatutory Stock Option Plan.

(b) RECENT SALES OF UNREGISTERED SECURITIES

In August 2003, Mr. Hugh Duddy was issued options to acquire 160,000 shares of NetSol Technologies, Inc. stock as compensation for consulting services provided by Mr. Duddy. Mr. Duddy's options entitle him to acquire up to 40,000 shares of common stock at the exercise price of \$1.00 per share; 40,000 shares of common stock at the exercise price of \$2.50 per share; 40,000 shares at the exercise price of \$3.75 per share; and 40,000 shares at the exercise price of \$5.00 per share. Each option may be exercised from the date of grant until November 14, 2007 or as otherwise limited by NetSol's nonstatutory stock option plan.

In an offering closing prior to the reverse stock split in August 2003, we sold 809,999, post-reverse split, shares of restricted common stock to 12 accredited investors for total consideration of \$1,215,000 in reliance on an exemption from registration available under Rule 506 of Regulation D of the Securities Act of 1933, as amended. This offering originally provided units consisting of shares of common stock and warrants to acquire common stock but was amended to adjust the number of shares consistent with NASDAQ compliance requirements. As part of the placement agent agreement with Maxim Group LLC, NetSol issued warrants to purchase 81,000 shares of common stock to Maxim Partners, nominee of Maxim Group LLC.

On August 20, 2003, we entered into a loan agreement with an accredited non-U.S. investor. Under the terms of the loan, NetSol borrowed \$500,000 from the investor. The note has an interest rate of 8% per annum. The note is due on a date that is one hundred (120) days from the issuance date. On the due date of the note, the note holder agreed to extend the term and compromise the debt with stock rather than a cash payment. On December 16, 2003, the note holder converted the note into 285,715 shares of the Company's common stock. The note was issued in reliance on an exemption available from registration under Regulation S of the Securities Act of 1933, as amended.

On October 14, 2003, NetSol executed an agreement to acquire Pearl Treasury System Ltd, a United Kingdom company. This acquisition requires NetSol to issue up to 60,000 shares of common stock to the shareholders of Pearl Treasury System, Ltd. The shares used to acquire this asset were issued in reliance on an exemption available from registration under Regulation S of the Securities Act of 1933, as amended. On December 16, 2003, 41,700 shares were issued under this agreement and the remaining 18,300 were issued on April 20, 2004 upon the completion of the software delivery warranties.

On December 16, 2003, we issued 34,843 shares, valued at \$100,000, to ACB, Ltd., formerly Arab Commerce Bank, as part of a settlement of an action instituted by ACB Ltd. against NetSol. The shares were issued in reliance on an exemption available from registration under Regulation S of the Securities Act of 1933, as amended. On February 6, 2004, NetSol issued an additional 10,352 shares valued at \$35,135 for interest to ACB (formerly Arab Commerce Bank) pursuant to the terms of the legal settlement dated November 3, 2003. These shares were issued as part of the settlement agreement with ACB. The shares were issued in reliance on an exemption available from registration under Regulation S of the Securities Act of 1933, as amended.

On December 17, 2003, NetSol entered into a loan agreement with an accredited non-U.S. investor, Noon Group. Under the terms of the loan, NetSol borrowed \$100,000 from the investor. The note has an interest rate of 6% per annum. The note is due on a date that is six months from the issuance date. In the event of default by NetSol only, the note is convertible into shares of common stock at \$1.95 per share, and 51,282 warrants at the exercise price of \$3.25 per share which expire one year from the conversion date. The note was issued in reliance on an exemption available from registration under Regulation S of the Securities Act of 1933, as amended. While the note was not automatically convertible except in the case of a default, the company elected, prior to default and, with the agreement of the note holder, to compromise the debt with stock rather than a cash payment. In addition, the detachable warrants were cancelled at this time. On March 24, 2004, the loan was converted into 51,282 shares of NetSol's common stock. On June 10, 2004, an additional 5,861 shares of the Company's common stock were issued for interest valued at \$11,429.

On December 24, 2003, NetSol entered into a loan agreement with an accredited non-U.S. investor, Akhtar Group. Under the terms of the loan, NetSol borrowed \$250,000 from the investor. The note has an interest rate of 6% per annum. The note is due on a date that is one hundred and twenty (120) days from the issuance date. In the event of default by NetSol only, the note is convertible into shares of common stock at \$1.85 per share, and 135,135 warrants at the exercise price of \$3.00 per share which expire six months from the conversion date. The note was issued in reliance on an exemption available from registration under Regulation S of the Securities Act of 1933, as amended. While the note was not automatically convertible excep