NETSOL TECHNOLOGIES INC
Form 10-Q
May 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

o For the transition period from __________ to __________

Commission file number: 0-22773

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

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

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

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

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

Yes x No ¨

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

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

The issuer had 28,541,987 shares of its $.001 par value Common Stock and 1,920 shares of Series A 7% Cumulative Convertible Preferred Stock issued and outstanding as of May 8, 2009.

Transitional Small Business Disclosure Format (check one)

Yes ¨ No x

NETSOL TECHNOLOGIES, INC.

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

	As of 3/31/09	As of 6/30/08 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,481,591	$ 6,275,238
Restricted cash	5,000,000	-
Accounts receivable, net of allowance for doubtful accounts	11,182,706	10,988,888
Revenues in excess of billings	6,728,374	11,053,042
Other current assets	2,145,522	2,406,407
Total current assets	27,538,193	30,723,575
Property and equipment, net of accumulated depreciation	9,463,524	10,220,545
Other assets, long-term	204,823	822,672
Intangibles:		
Product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, net	12,452,357	10,837,856
Customer lists, net	1,535,328	1,732,761
Goodwill	9,439,285	9,439,285
Total intangibles	23,426,970	22,009,902
Total assets	$ 60,633,510	$ 63,776,694
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,833,319	$ 4,116,659
Current portion of loans and obligations under capitalized leases	6,103,585	2,280,110
Other payables - acquisitions	103,226	846,215
Unearned revenues	3,358,180	3,293,728
Due to officers	-	184,173
Dividend to preferred stockholders payable	49,974	33,508
Cash dividend to minority shareholders of subsidiary	-	-
Loans payable, bank	2,108,919	2,932,551
Total current liabilities	16,557,203	13,686,944
Obligations under capitalized leases, less current maturities	1,046,801	332,307
Convertible notes payable	5,786,456	-
Long term loans; less current maturities	416,341	411,608
Total liabilities	23,806,801	14,430,859
Minority interest	5,661,417	7,857,969
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized; 1,920 issued and outstanding	1,920,000	1,920,000
Common stock, $.001 par value; 95,000,000 shares authorized; 26,666,987 issued and 26,438,491 outstanding as of March 31, 2009 25,545,482 issued and 25,525,886 outstanding as of June 30, 2008	26,667	25,545
Additional paid-in-capital	77,320,715	74,950,286
Treasury stock (228,496; 19,596 shares)	(396,008)	(35,681)
Accumulated deficit	(40,346,904)	(33,071,702)
Stock subscription receivable	(692,654)	(600,907)

Common stock to be issued	118,325	1,048,249
Other comprehensive loss	(6,784,849)	(2,747,924)
Total stockholders' equity	31,165,292	41,487,866
Total liabilities and stockholders' equity	$ 60,633,510	$ 63,776,694

See accompanying notes to these unaudited consolidated financial statements.

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

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008 (Restated)	For the Nine Months Ended March 31, 2009	For the Nine Months Ended March 31, 2008 (Restated)
Net Revenues:				
Licence fees	$ 324,845	$ 2,998,867	$ 3,502,632	$ 7,769,226
Maintenance fees	1,664,492	1,482,654	4,771,519	4,556,450
Services	3,033,684	4,585,292	11,320,846	13,800,844
Total revenues	5,023,021	9,066,813	19,594,997	26,126,520
Cost of revenues				
Salaries and consultants	2,629,081	2,620,722	7,652,671	7,342,743
Travel	280,390	394,841	993,290	972,998
Repairs and maintenance	81,536	99,262	290,436	332,448
Insurance	43,478	30,005	135,390	153,760
Depreciation and amortization	532,099	316,652	1,615,853	847,288
Other	917,051	522,013	2,208,265	1,341,513
Total cost of sales	4,483,635	3,983,495	12,895,905	10,990,750
Gross profit	539,386	5,083,318	6,699,092	15,135,770
Operating expenses:				
Selling and marketing	629,145	898,686	2,479,509	2,817,908
Depreciation and amortization	501,239	477,630	1,476,281	1,422,181
Bad debt expense	1,772,188	-	2,420,658	3,277
Salaries and wages	773,757	1,034,784	2,697,531	2,758,434
Professional services, including non-cash compensation	257,926	125,107	877,752	424,108
General and adminstrative	862,623	781,828	2,693,451	2,277,022
Total operating expenses	4,796,878	3,318,035	12,645,182	9,702,930
Income/ (Loss) from operations	(4,257,491)	1,765,283	(5,946,090)	5,432,840
Other income and (expenses):				
Gain (loss) on sale of assets	(127,558)	(891)	(308,256)	(33,044)
Interest expense	(483,501)	(121,719)	(983,971)	(544,665)
Interest income	177,771	84,431	246,607	159,869
Gain on sale of subsidiary shares	-	1,240,808	-	1,240,808
Loss on extinguishment of debt	(1,000,000)	-	(1,000,000)	-
Exchange gain /(loss) on foreign currency	8,902	388,859	1,821,754	590,170
Other income and (expenses)	15,378	59,031	47,518	118,944
Total other income (expenses)	(1,409,008)	1,650,519	(176,348)	1,532,082
Net income (loss) before minority interest in subsidiary	(5,666,500)	3,415,802	(6,122,438)	6,964,922
Minority interest in subsidiary - restated in 2008	689,584	(1,159,134)	(972,238)	(3,288,490)
Income taxes	(21,594)	(15,314)	(79,631)	(46,272)
Net income (loss)	(4,998,510)	2,241,354	(7,174,308)	3,630,160
Dividend required for preferred stockholders	(33,140)	(33,508)	(100,892)	(145,033)
Net income (loss) applicable to common shareholders	(5,031,650)	2,207,846	(7,275,200)	3,485,127
Other comprehensive income (loss):				
Translation adjustment -restated in 2008	(179,358)	(634,280)	(4,036,926)	(1,065,613)
Comprehensive income (loss)	$ (5,211,008)	$ 1,573,566	$ (11,312,126)	$ 2,419,514

Net income (loss) per share:								
Basic	$	(0.19)	$	0.09	$	(0.27)	$	0.15
Diluted	$	(0.19)	$	0.09	$	(0.27)	$	0.15
Weighted average number of shares outstanding								
Basic		26,601,587		25,205,995		26,350,098		23,686,204
Diluted		26,601,587		25,665,924		26,350,098		24,146,133

See accompanying notes to these unaudited consolidated financial statements.

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

	For the Nine Months Ended March 31, 2009	2008 (Restated)
Cash flows from operating activities:		
Net income (loss)	$ (7,174,308)	$ 3,630,160
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,092,134	2,269,469
Provision for uncollectible accounts	2,420,658	3,277
Loss on sale of assets	-	33,044
Gain on sale of subsidiary shares in Pakistan	308,256	(1,240,808)
Minority interest in subsidiary - restated in 2008	972,238	3,288,490
Stock issued for services	227,516	48,163
Stock based compensation expense	147,639	24,320
Beneficial feature of convertible notes payable	17,225	-
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,934,511)	(2,087,736)
Increase (decrease) in other current assets	3,175,947	(4,885,181)
Increase(decrease)in accounts payable and accrued expenses	588,689	(510,968)
Net cash (used in) provided by operating activities	(158,517)	572,230
Cash flows from investing activities:		
Purchases of property and equipment	(1,501,508)	(1,985,651)
Sales of property and equipment	13,376	120,436
Payments of acquisition payable	(742,989)	(879,007)
Purchase of treasury stock	(360,328)	-
Short-term investments held for sale		
Increase in intangible assets	(5,281,642)	(2,219,673)
Net cash used in investing activities	(7,873,091)	(4,963,895)
Cash flows from financing activities:		
Proceeds from sale of common stock	146,652	1,500,000
Proceeds from the exercise of stock options and warrants	526,569	2,800,917
Purchase of subsidary stock in Pakistan	(250,000)	1,765,615
Finance costs incurred for sale of common stock	-	(10,000)
Purchase of treasury stock	-	(25,486)
Restricted cash	(5,000,000)	-
Proceeds from convertible notes payable	6,000,000	-
Proceeds from bank loans	3,843,541	3,862,759
Payments on bank loans	(235,486)	(1,245,846)
Dividend Paid to Preferred Shareholders	(33,876)	-
Bank overdraft	161,134	-
Payments on capital lease obligations & loans - net	(467,397)	(3,462,334)
Net cash provided by financing activities	4,691,137	5,185,625
Effect of exchange rate changes in cash	(453,176)	44,390
Net increase in cash and cash equivalents	(3,793,647)	838,350
Cash and cash equivalents, beginning of period	6,275,238	4,010,164

Cash and cash equivalents, end of period	$ 2,481,591	$ 4,848,514

See accompanying notes to the unaudited consolidated financial statements.

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

	2009	2008
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$ 805,237	$ 147,996
Taxes	$ 4,800	$ 91,659
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for acquisition of 100% of subsidiary	$ -	$ 76,750
Common stock issued for dividend payable	$ 33,876	$ 189,165
Bonus stock dividend issued by subsidiary to minority holders	$ 615,549	$ 545,359
Stock issued for the conversion of Preferred Stock	$ -	$ 2,210,000
Purchase of property and equipment under capital lease	$ 1,260,710	$ -

See accompanying notes to the unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended June 30, 2008. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

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

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

NOTE 2 - USE OF ESTIMATES

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

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

In May 2008, FASB issued SFASB No.162, "The Hierarchy of Generally Accepted Accounting Principles". The pronouncement mandates the GAAP hierarchy reside in the accounting literature as opposed to the audit literature. This has the practical impact of elevating FASB Statements of Financial Accounting Concepts in the GAAP hierarchy. This pronouncement will become effective 60 days following SEC approval. The Company does not believe this pronouncement will impact its financial statements.

In May 2008, FASB issued SFASB No. 163, "Accounting for Financial Guarantee Insurance Contracts-an interpretation of FASB Statement No. 60". The scope of the statement is limited to financial guarantee insurance (and reinsurance) contracts. The pronouncement is effective for fiscal years beginning after December 31, 2008. The Company does not believe this pronouncement will impact its financial statements.

EITF Issue No. 07-5, "Determining Whether an Instrument (or embedded Feature) is Indexed to an Entity's Own Stock" (EITF 07-5) was issued in June 2008 to clarify how to determine whether certain instruments or features were indexed to an entity's own stock under EITF Issue No. 01-6, "The Meaning of "Indexed to a Company's Own Stock" (EITF 01-6). EITF 07-5 applies to any freestanding financial instrument (or embedded feature) that has all of the characteristics of a derivative as defined in FAS 133, for purposes of determining whether that instrument (or embedded feature) qualifies for the first part of the paragraph 11(a) scope exception. It is also applicable to any freestanding financial instrument (e.g., gross physically settled warrants) that is potentially settled in an entity's own stock, regardless of whether it has all of the characteristics of a derivative as defined in FAS 133, for purposes of determining whether to apply EITF 00-19. EITF 07-5 does not apply to share-based payment awards within the scope of FAS 123(R), Share-Based Payment (FAS 123(R)). However, an equity-linked financial instrument issued to investors to establish a market-based measure of the fair value of employee stock options is not within the scope of FAS 123(R) and therefore is subject to EITF 07-5.

The guidance is applicable to existing instruments and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Management is currently considering the effect of this EITF on financial statements for the year beginning July 1, 2009.

On January 12, 2009 FASB issued FSP EITF 99-20-01, "Amendment to the Impairment Guidance of EITF Issue No. 99-20". This FSP amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by a Transferor in Securitized Financial Assets," to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and other related guidance. The FSP is shall be effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The Company does not believe this pronouncement will impact its financial statements.

NOTE 4 – EARNINGS/(LOSS) PER SHARE

“Earnings per share” is calculated in accordance with the Statement of Financial Accounting Standards No. 128 (SFAS No. 128), “Earnings per share”. Basic net income per share is based upon the weighted average number of common shares outstanding. Diluted net income per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

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

For the nine months ended March 31, 2009	Net Income	Shares	Per Share
Basic earning/ (loss) per share:	$ (7,174,308)	26,350,098	$ (0.27)

For the nine months ended March 31, 2008	Net Income	Shares	Per Share
Basic earnings per share:	$ 3,630,160	23,686,204	$ 0.15
Effect of dilutive securities			
Stock options		221,129	
Warrants		180,920	
Convertible Preferred Shares		57,880	
Diluted earnings per share	$ 3,630,160	24,146,133	$ 0.15

* As there is a loss, these securities are anti-dilutive. The basic and diluted earnings per share is the same for the nine months ended March 31, 2009

NOTE 5 - FOREIGN CURRENCY

The accounts of NetSol UK and NTE use the British Pound; NetSol PK, Connect, and NetSol-TiG use Pakistan Rupees; and Abraxas uses the Australian dollar as the functional currencies. NetSol Technologies, Inc., and subsidiary NTNA, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Accumulated translation losses of $6,784,849 at March 31, 2009 are classified as an item of accumulated other comprehensive loss in the stockholders’ equity section of the consolidated balance sheet. During the nine months ended March 31, 2009 and 2008, comprehensive gain (loss) in the consolidated statements of operations included translation loss of $(4,036,926) and $(1,065,613), respectively.

NOTE 6 - OTHER CURRENT ASSETS

Other current assets consist of the following:

	As of 3/31/09	As of 6/30/08
Prepaid Expenses	$ 670,118	$ 825,640
Advance Income Tax	412,616	356,843
Employee Advances	57,637	133,954
Security Deposit	191,967	244,409
Advance Rent	-	211,828
Tender Monay Receivable	258,763	293,943

Other Receivables	462,967	335,493
Other Assets	91,454	4,297
Total	$ 2,145,522	$ 2,406,407

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NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following:

	As of 3/31/09	As of 6/30/08
Office furniture and equipment	$ 772,556	$ 1,224,340
Computer equipment	7,383,304	9,043,307
Assets under capital leases	2,499,190	1,511,311
Building	2,455,354	2,902,142
Land	1,479,917	925,210
Autos	323,254	245,855
Capital Work in Progress	646,259	1,043,765
Improvements	308,096	413,175
Subtotal	15,867,928	17,309,105
Accumulated depreciation	(6,404,404)	(7,088,560)
	$ 9,463,524	$ 10,220,545

For the nine months ended March 31, 2009 and 2008, fixed asset depreciation expense totaled $1,391,867 and $1,034,720, respectively. Of these amounts, $877,829 and $661,114, respectively, are reflected as part of cost of goods sold.

NetSol PK has been enhancing its facilities and infrastructure as necessary. The balance in capital work-in-progress for March 31, 2009 and June 30, 2008, was $646,259 and $1,043,765, respectively.

Assets acquired under capital leases were $2,499,190 and $1,511,311 as of March 31, 2009 and June 30, 2008, respectively. Accumulated amortization related to those leases was $710,750 and $653,643 for the periods ended March 31, 2008 and June 30, 2008, respectively.

NOTE 8 - INTANGIBLE ASSETS

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

As part of intangible assets, the Company capitalizes certain computer software development costs in accordance with SFAS No. 86, “Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.” Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers.

The Company makes on-going evaluations of the recoverability of its capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, the Company writes off the amount by which the unamortized software development costs exceed net realizable value. Capitalized and purchased computer software development costs are being amortized ratably based on the projected revenue associated with the related software or on a straight-line basis over three years, whichever method results in a higher level of amortization.

Product licenses and customer lists were comprised of the following:

	Product Licenses	Customer Lists	Total
Intangible assets - June 30, 2007 - cost	$ 14,511,208	$ 5,451,094	$ 19,962,302
Additions	4,481,077	-	4,481,077
Effect of translation adjustment	(381,578)	-	(381,578)
Accumulated amortization	(7,772,851)	(3,718,333)	(11,491,184)
Net balance - June 30, 2008	$ 10,837,856	$ 1,732,761	$ 12,570,617
Intangible assets - June 30, 2008 - cost	$ 18,992,284	$ 5,451,094	$ 24,443,378
Additions	4,525,005	352,963	4,877,968
Effect of translation adjustment	(2,180,332)	-	(2,180,332)
Accumulated amortization	(8,884,600)	(4,268,729)	(13,153,329)
Net balance - March 31, 2009	$ 12,452,357	$ 1,535,328	$ 13,987,685
Amortization expense:			
Nine months ended March 31, 2009	$ 1,169,871	$ 530,396	$ 1,700,267
Nine months ended March 31, 2008	$ 713,766	$ 520,983	$ 1,234,749

At March 31, 2009 and 2008, product licenses, renewals, enhancements, copyrights, trademarks, and trade names, included unamortized software development and enhancement costs of $8,712,710 and $7,674,491, respectively, as the development and enhancement is yet to be completed. Software development amortization expense was $738,024 and $186,174 for the nine months ended March 31, 2009 and 2008, respectively and is shown in “Cost of Goods Sold” in these consolidated financial statements.

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

	FISCAL YEAR ENDING					
Asset	3/31/10	3/31/11	3/31/12	3/31/13	3/31/14	TOTAL
Product Licences	$ 1,282,687	$ 1,169,140	$ 497,044	$ 207,406	$ 207,406	$ 3,363,683
Customer Lists	573,927	545,756	286,226	70,593	58,827	1,535,329
	$ 1,856,614	$ 1,714,896	$ 783,270	$ 277,999	$ 266,233	$ 4,899,012

There were no impairments of the goodwill asset during the nine months ended March 31, 2009 and 2008.

NOTE 9 – OTHER ASSETS – LONG TERM

As of December 31, 2008 and June 30, 2008, one of the Company’s subsidiaries classified two of its long-term accounts receivables as other assets in the discounted net present value amounts of $367,522 and $614,446, respectively.

Total other assets, long term as of March 31, 2009 and June 30, 2008 was $204,823 and $822,672, respectively.

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	As of 3/31/09	As of 6/30/08
Accounts Payable	$ 1,320,392	$ 1,468,491
Accrued Liabilities	2,795,002	2,099,693
Accrued Payroll	1,100	2,203
Accrued Payroll Taxes	400,840	176,916
Interest Payable	54,010	158,627
Deferred Revenues	721	72,240
Tax Payable	261,255	138,489
Total	$ 4,833,319	$ 4,116,659

NOTE 11 - DEBTS

A) LOANS AND LEASES PAYABLE

Notes payable consist of the following:

Name	Balance at 3/31/09	Current Maturities	Long-Term Maturities
D&O Insurance	107,099	107,099	-
Habib Bank Line of Credit	5,022,539	5,022,539	-
Bank Overdraft Facility	221,649	221,649	-
HSBC Loan	353,237	247,031	106,206
Loan Payable	310,135	-	310,135
Subsidiary Capital Leases	1,552,068	505,267	1,046,801
	$ 7,566,727	$ 6,103,585	$ 1,463,142

Name	Balance at 6/30/08	Current Maturities	Long-Term Maturities
D&O Insurance	$ 41,508	$ 41,508	$ -
E&O Insurance	28,518	28,518	-
Habib Bank Line of Credit	1,501,998	1,501,998	-
Bank Overdraft Facility	84,952	84,952	-
HSBC Loan	739,428	327,820	411,608
Subsidiary Capital Leases	627,621	295,314	332,307
	$ 3,024,025	$ 2,280,110	$ 743,915

In August 2007, NetSol UK, entered into an agreement with HSBC Bank whereby the line of credit outstanding of £500,000 or approximately $1,023,850 was converted into a loan payable with a maturity of three years. The interest rate is 7.5% with monthly payments of £15,558 or approximately $31,858. The loan outstanding as of March 31, 2009 and June 30, 2008, was $353,237 and $739,428, respectively. Interest expense on this line of credit during the nine month periods ending March 31, 2009 and 2008, was $27,278 and $53,829, respectively.

In April 2008, the Company entered into an agreement with Habib American Bank to secure a line of credit to be collateralized by Certificates of Deposit held at the bank. The interest rate on this line of credit is variable and was 5.30% and 4.57% at March 31, 2009, and June 30, 2008, respectively. The amount outstanding as of March 31, 2009 and June 30, 2008 was $5,022,539 and $1,501,998, respectively. Interest expense on this line of credit during the nine month periods ending March 31, 2009 and 2008, was $144,706 and $0, respectively.

During the year ended June 30, 2008, NTE entered into an overdraft facility with HSBC Bank plc whereby the bank would cover Company overdrafts up to £200,000. The annual interest rate is 3.25% over the bank's sterling base rate, which is currently 5.00%, for an effective annual rate of 8.25%. The amount outstanding as of March 31, 2009 and June 30, 2008, was $221,649 and $84,952, respectively. Interest expense on this facility during the nine month periods ending March 31, 2009 and 2008, was $10,928 and $10,868, respectively.

CAPITAL LEASE OBLIGATIONS

The Company leases various fixed assets under capital lease arrangements expiring in various years through 2014. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lesser of their related lease terms or their estimated useful lives and are secured by the assets themselves. Depreciation of assets under capital leases is included in depreciation expense for the nine months ended March 31, 2009 and 2008.

Following is the aggregate minimum future lease payments under capital leases as of March 31, 2009:

Minimum Lease Payments		
Due FYE 03/31/10	$	664,239