

**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, 2007

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
NASDAQ CAPITAL MARKET**

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, 2007 were \$29,282,086.

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$23,878,944 as of September 13, 2007.

As of September 13, 2007, Registrant had 21,374,922 shares of its \$.001 par value Common Stock issued and outstanding and 4,130 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 10-KSB 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. ("NetSol" or the "Company") is global information technology solution provider. NetSol's global resource base includes diversely qualified and experienced resources across software development, project management, operations & multiple products or services offerings. NetSol helps clients to identify, evaluate and implement technology solutions to meet their strategic business challenges and maximize their bottom line. By utilizing its worldwide resources, NetSol delivers high-quality, cost-effective equipment and vehicle finance portfolio management solutions. The Company also delivers managed IT services ranging from consulting and application development to systems integration and development outsourcing. NetSol's commitment to quality is demonstrated by its achievement of both ISO 9001 and SEI (Software Engineering Institute) CMMi (Capability Maturity Model) Level 5 assessment, a distinction shared by only 94 companies worldwide. The Company's clients include global automakers, financial institutions, technology companies and governmental agencies. NetSol's largest customers, DaimlerChrysler Services and Toyota, rank the Company as a preferred vendor in more than 40 countries. Founded in 1996, NetSol is headquartered in Calabasas, California. NetSol Technologies also has operations and/or offices in: Horsham, United Kingdom; the San Francisco Bay Area, California, USA; Adelaide, Australia; Beijing, China; Lahore, Islamabad, Rawalpindi and Karachi, Pakistan; and, Bangkok, Thailand.

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. NetSol's subsidiary, NetSol Technologies Limited, is listed on the Karachi Stock Exchange (NETSOL).

The two recent acquisitions in Horsham in the United Kingdom and in Burlingame, California in the United States, add an onshore development capacity. The capacity and capability of these locations provide the Company with contingency development capability in the event of any unforeseen crises at the Lahore facility. So far, the Lahore development facility has operated smoothly without any interruption since 1996. Currently about 80% of the Company's software development takes place in the Lahore technology campus with the remaining 20% in the US and UK.

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 a 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 down 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, and Lockheed Martin 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.

The Company is divided into two groups, the Global Product Group and the Global Services Group; and three regions: North America; Europe, Middle East and Africa ("EMEA"); and, Asia Pacific ("APAC").

The North American Region is headed by John McCue, as President of NetSol McCue, based in Burlingame, California. NetSol 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. In order to best leverage the cost arbitrage and enhance gross margins, NetSol US operations (after the McCue acquisition) has already begun training 15 developers and programmers in the Lahore development facility to reduce dependency in the high-cost base in Silicon Valley. The integration of both back end and front end of McCue with NetSol is on track. The Company will continue to use NetSol McCue as a platform for introduction of LeaseSoft to the U.S. market.

NetSol 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, NetSol McCue offers the LeasePak Bronze, Silver and Gold Editions for systems and portfolios of virtually all sizes and complexities. These solutions provide the equipment and vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors, including such companies as Cisco, Hyundai, JP Morgan/Chase, KeyCorp Leasing, City National Bank, Bank of Tokyo Mitsubishi, La Salle National Bank, Terex Corp., National City Capital Corp., ORIX, and Volkswagen Credit.

With common customers and common goals, we believe that NetSol 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. With NetSol McCue, NetSol now has a regional asset finance solution suitable for the biggest auto and equipment finance commercial markets of North America.

The EMEA Region, headed by former NetSol Chief Executive Officer, Naeem Ghauri, continues to capitalize on the 2005 acquisition of CQ Systems Ltd. (now NetSol-CQ). As a result of the acquisition, NetSol has access to a broad European customer base using IT solutions complementary to NetSol's own LeaseSoft product suite. NetSol continues to leverage NetSol-CQ's knowledge base and strong presence in the Asset Finance market to broaden the product and market reach within the UK and Continental Europe. NetSol-CQ's strong sales and marketing capability has further helped NetSol gain recognition and positioning for the broader LeaseSoft suite of products.

The integration of the former CQ Systems with NetSol has been smooth and consistent with NetSol's planned strategy. During the early part of 2007, NetSol-CQ entered the second phase of integration by increasing its offshore development capability by 100%, through expansion of its Lahore based team. The Company expects to enhance this further during the year, improving productivity and net margins.

New products introduced in the last quarter included: LeaseSoft Auto-Decision Engine, developed to provide automation of credit checking and underwriting for standards based financial products, and LeaseSoft EDI, introduced to facilitate process automation between business introducers and funders. These enhancements to LeaseSoft Asset complement product releases earlier in the year; LeaseSoft Portal introduced to support online access to proposals and form the foundation of web-based origination systems and LeaseSoft Document Manager introduced to facilitate the automation production and distribution of proposal documentation, including indexation and branding of all outboard and inbound documents. All new products and enhancements have been well received by the market with sales and successful implementations during the fiscal year. The EDI, Auto-Decision and Origination projects were delivered on time and to budget and LeaseSoft Evolve with its first sale to Kennet Equipment Finance, was implemented in record time (LeaseSoft Evolve is, targeted at small portfolio companies with 250 to 2,500 agreements is a software package designed to facilitate a simple and cost effective solution to support Asset Finance operations).

Product development continues to focus on expanding the product and market reach within the core competence of leasing and financial services creating the opportunity to broaden the product and services offerings and increasing revenues for the end-to-end life cycle management on lease-based contracts.

The introduction of new products and services contributed to the Company's growing success in Europe with leading banks adopting the LeaseSoft Asset application suite as their end-to-end Asset Finance software solution. These organizations are continuing to invest to further develop their business origination systems to achieve competitive advantage in the marketplace.

In parallel with the introduction and new products and services NetSol-CQ has further strengthened its core competences in leasing domain knowledge and in Microsoft and Oracle based technologies which form the basis of all its new developments, to meet the ongoing demand for high quality professional services.

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.

NETSOL APAC OPERATIONS

Our off-shore development center, and indeed the center of the Company's services and software operations, the APAC region is headed by former President of NetSol and current Chief Executive Officer of NetSol PK (the Company's Pakistan subsidiary), Salim Ghauri. The Asian continent, Australia and New Zealand, from the perspective of LeaseSoft marketing, are targeted by NetSol Technologies from its Lahore subsidiary, its offices in Australia, Thailand and Beijing, China. NetSol PK 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, APAC 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. These clients include private as well as public sector enterprises. In response, APAC has created a new division known as NDD - NetSol Defense Division in Islamabad. There is a sizable budget allocated by the government of Pakistan to automate and use new technologies and systems. NetSol is in a sound position to win some of these high ticketed projects.

APAC has entered into a major new development project at the provincial level to support the data entry and projects management of Land Revenue Systems. This is a very new opportunity that has been funded by World Bank to reform the land management system in Pakistan. This development project positions NetSol to win potentially very large size projects.

IT Consulting & Services

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

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.

IT Consulting & Services in Pakistan has included a first entrant advantage into the e-government sector for both provincial and federal governments and armed forces automation projects. The development of solutions for clients has resulted in the development of vertical offerings catering to various industries and accordingly, diversifying NetSol's offerings. These verticals have been used successfully in Pakistan to provide services for the Motor Transport Management System, Land Record Management System, Legislature, computer based trainings, enterprise content management, unit management systems, e government and defense.

The NetSol Defense Division (NDD), founded in 2005, specializes in providing solutions for improvement and optimization of business operations of the defense and military forces, particularly for ERP, office automation and non-warfare operations. Since late 2006, the division has undertaken research and development in collaboration with various partners for warfare and similar operations management systems. With a unique blend of experienced and highly skilled IT specialists and managers, and most importantly the domain expertise from the defense sector itself, NDD has positioned itself as a platform-independent system integration partner for the unique mission requirements of the defense and intelligence communities within Pakistan. The NDD is currently undertaking the following projects for this sector: Unit Management System, an initiative for the automation of administrative functions for the Pakistani Army, helping to realize the Army's key objective of improving productivity and efficacy of the units of the Pakistani Army; Academy Information Management System for the Pakistan Military Academy, one of the top rated military institutes in the world; and, Network Centric Warfare (NCW) working to provide an information grid which provides a seamless integration of sensors, weapons, and decision makers through a common operating environment and mission applications built in compliance with laid down inter-operability standards.

Business Intelligence (BI) solution providers must have both the capability to service BI customers using its own resources but also service the customers of international affiliates in the APAC region. Typical BI projects run into several years of phased implementation and rely on expensive international resources with a very restricted and limited accessibility. As such, management believes, that NetSol's competitors compromise on quality by turning BI projects into IT projects, which is a recipe for failure. Our strategy is simple; we identify the business pins of our potential customer and involve our industry domain experts directly with business managers at the client side. This results in ownership of the project with the business group rather than the IT group which is involved in the overall initiative only from a support and facilitation standpoint.

NetSol's service capability has expanded to Basel II compliance. The 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. Further, the 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 formed a strategic alliance with SunGard in April 2006, and launched its Basil II solutions with a jointly sponsored seminar in Karachi. The strong Basel II implementation know-how of NetSol's BI consulting group combined with the world's foremost software in the risk and financial industry makes NetSol, in management's opinion, the world's strongest and most proficient Basel II service in Pakistan.

Information Security services is provided by NetSol INFOSEC Unit. This unit provides services to secure all corporate information and its supporting processes, systems and networks. NetSol's Information Security Services is a group of vendor-neutral, dedicated security consultants with real-life field experience. The INFOSEC group utilizes industry standard security best practices coupled with best-of-breed products to deliver proven and robust Information Security Management Systems (ISMS). Services include: managed security services provider; BS-7799/ISO 27001 Compliance Life-cycle services; information security assessment; penetration testing and vulnerability assessment; disaster recovery planning; and, network architecture design, deployment and management.

Software Process Improvement Consulting is provided by NetSol to companies in Pakistan through an independent division. The division provides quality engineering and related consulting services to technology companies. These activities are broadly developed under the guidelines of SEI based CMMi processes as well as the information security consulting practices. Currently, NetSol is one of the few companies authorized by Pakistan Software Export Board (PSEB) for BS7799/ISO 27001 consulting practices in Pakistan as well as complete life cycle consulting for CMMi.

All of these services are available for the US and UK market. More particularly, the company's U.S. division has developed a broad range of services aimed at LeasePak customers. These include customized report writing, system reconfiguration, upgrade support, integration support, and business process reviews and process re-engineering.

LeaseSoft

The Company develops advanced software systems for the lease and finance industries. NetSol has developed "LeaseSoft" as a product for automated solutions pertaining to leasing and asset hire or purchase lifecycle management.

LeaseSoft, a robust suite of four software applications, is an end-to-end solution for the lease and finance industry covering the complete leasing and finance cycle starting from quotation origination through end of contract. The four software applications under LeaseSoft have been designed and developed for a highly flexible setting and are capable of dealing with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments. Each application is a complete system in itself and can be used independently to address specific sub-domains of the leasing/financing cycle. NetSol recently added LeaseSoft Fleet Management System (FMS). The Company has already signed an agreement for FMS with a major automotive company in the Asia Pacific region.

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

The constituent software applications are:

- **Credit Application Processing System (CAP)**. 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.

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

Typically, NetSol's sales cycle for these products ranges between three to six 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 per module. 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 Maritius 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 NORTH AMERICA OPERATION - NetSol McCue, Inc.

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

NetSol 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, NetSol McCue offers the LeasePak Bronze, Silver and Gold Editions for systems and portfolios of virtually all sizes and complexities. These solutions provide the equipment and vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors. NetSol customers include such companies as Cisco, Hyundai, JP Morgan/Chase, KeyCorp Leasing, City National Bank, Bank of Tokyo Mitsubishi, La Salle National Bank, Terex Corp., National City Capital Corp., ORIX, and Volkswagen Credit.

NetSol McCue, the company's U.S. division, has commenced the rollout of a full suite of IT outsourcing services and customized development solutions to the North American equipment finance technology market. The services offering will leverage 30 plus years of equipment leasing and lending experience. While the division's Client Consulting Services department has long offered NetSol McCue customers a range of business process engineering services, the new offering package will greatly expand the menu of available services to meet market needs. New services to be offered will include customized application development, a full range of Quality Assurance (QA) services, customized strategic report design, and business intelligence tool development. Leveraging well-established relationships with users of the division's flagship application, the IT Services team will market to these existing customers, then to adjacent groups within customer organizations, eventually building out to a full, industry-wide sales and marketing strategy.

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. With the McCue's acquisition, NetSol now has a regional asset finance pm solution to suitable for the biggest auto and equipment finance commercial markets of North America.

NETSOL EMEA OPERATIONS - NETSO-CQ Ltd., UK.

In February 2005, NetSol acquired 100% of CQ Systems Ltd., ("NetSol-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-CQ's integration has included the continued leverage of the Company's high quality but lower cost resources in its offshore development center in Lahore, Pakistan. 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. NetSol-CQ has been able to implement significant productivity and cost improvements which have included realizing the higher level of cost efficiencies of 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.

Like all NetSol companies, NetSol-CQ has seen its sales and revenues focus increasingly on total client services rather than on a purely, one-off, product based model. Roughly two-thirds of the new sales for NetSol-CQ came from products which did not exist when CQ was purchased by NetSol. The total client services model has seen an expansion from a solely back office based product to a greater front office focus. This front office focus tends to be highly customized as the initial interface for the customer. NetSol-CQ's auto decision component was developed sooner than any competitors and together with its web-based portal, is one of the many front ends solutions that NetSol-CQ is implementing.

NetSol will continue to manage LeaseSoft pre-sales support and deliveries by having two specialized pools of resources for each of the five 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, its offices in Beijing, and it's newly opened business and technical support office in Bangkok, Thailand. NetSol UK through its base in Horsham, United Kingdom, focuses on the European market. The marketing for LeaseSoft in USA and Canada is carried out directly by the Company.

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.

NetSol office in Beijing, China

As part of the same strategy and focus on marketing LeaseSoft, NetSol established a 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.

NetSol 's new office in Bangkok, Thailand

To further strengthen its presence in the Asia-Pacific market, and to provide exclusive services to its clients, the APAC region has recently established a support office in Bangkok, Thailand. This office is located at a prime location in Bangkok. The core responsibilities of this office are to enhance business through targeting potential customers and to provide technical support to its existing clients in Thailand.

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

- 11 new implementation contracts signed during the year.
- Of these, 7 new contracts signed during the fourth quarter.
- New names in the customer list, including Fiat Automotive Finance, CNH Capital, and a large automotive blue chip company in China.
- The addition of the Fleet Management System to the LeaseSoft Suite.

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, CNH Capital Australia, Fiat Automotive Finance China, a Large Automotive Blue chip Company in China and BMW Financial Services in China.

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

NetSol also maintains a LeaseSoft specific product website www.leasesoft.biz. This product website is also available in the Chinese and Thai languages at <http://www.leasesoft.biz/chinese> and <http://www.leasesoft.biz/thai>.

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™.

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.

The development of the beta version of InBanking is now completed and NetSol is currently seeking a bank or financial institution to act as pilot development partners for the beta version of InBanking™ to support their specific requirements.

LeaseSoft Portals and Modules in 2007

Our EMEA division developed new products and modules including:

LeaseSoft Portal- introduced to support online access to proposals and for the foundation of web-based origination systems

LeaseSoft Document Manager- introduced to facilitate the automation production and distribution of proposal documentation, including indexation and branding of all outboard and inbound documents.

LeaseSoft Auto-Decision Engine- developed to provide automation of credit checking and underwriting for standards based financial products

LeaseSoft EDI Manager- introduced to facilitate process automation between business introducers and funders

Evolve- launched to provide an entry level software package for own book brokerages and small to medium size funders.

LeasePak Productivity Suite

In 2005, McCue Systems developed the LeasePak Productivity Suite as an additional companion set of products to operate in conjunction with the LeasePak licensed software. This toolset 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. In 2007, LeasePak 6.0a was released for general availability and has gone into production for use at 2 major clients.

The components of the LeasePak Productivity Suite are:

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.

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 to identify trends, manage risk, and assure compliance for using real-time strategic information.

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.

AcquireIT - A powerful data management and business development tool that enhances the ability of LeasePak users to generate business with each other. This add-on allows equipment leasing entities to greatly reduce the overhead in time and resources required to buy and sell aggregated contracts and/or portfolios, giving LeasePak users a competitive advantage over users of other portfolio management systems.

With the release of LeasePak 6.0, users have new options for navigation and reporting. Additionally, new capabilities have been incorporated into the product:

- **Business Development Module:** Streamlines the exchange of aggregated finance contract portfolios between LeasePak users.
- **Commercial Lending Module:** Adds core functionality for the management of commercial loans.
- **Asset Focus Module:** Provides new options for users to enhance asset accounting and reporting options.

NetSol Technology Institute

Recently started by the Company, and formerly NetSol Omni, the NetSol Technology Institute (NTI) has been started with the goal of playing a vital role in the transition phase of the Pakistan IT industry by creating a pool of skilled IT human resources. NTI is aimed at building a strong educational base, initially as an institute, then branching out either as a wholly owned chain or franchise. NTI offers specialized career oriented trainings and workshops on the latest tools and technologies. The curriculum is based on current and future industry needs and resource requirements. The instructors are industry practitioners sharing their personal experiences during the training. NTI delivers training on different platforms including in-house training and third party arrangements. We hope to enter into collaborations with international industry consortiums for endorsement of our trainings.

Outsourcing Services-Extended Innovation (EI)

In November 2004, the Company entered into a joint venture agreement with The Innovation Group (“TiG”) whereby the TIG-NetSol (Pvt) Ltd., now Extended Innovation (EI) 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 a majority of the venture. The entities share in the profits of the joint venture on the basis of their shareholding. The outsourcing model between 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 120 person team in June 2007 with the additional resources catering to the increased influx of outsourcing of configuration and testing assignments from TiG.

Prominent TiG customers being serviced from EI include Allstate Insurance Canada, Avis Budget Car Rental Group USA, Norwich Union UK, Hertz UK, Aviva Canada, Erinaceous UK amongst others. Backed up by a dedicated 4Mbps fiber optic link and an additional 2Mbps wireless backup 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.

Growth Through Acquisition and Alliance

On June 30, 2006, NetSol completed its acquisition of McCue Systems, Inc., a California corporation (now NetSol McCue, Inc.). NetSol McCue 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 NetSol McCue provides a complimentary North American presence to our global offering of software and services to the lease and finance industry. NetSol McCue is expected to contribute about 25% of U.S. based revenue to the NetSol group revenue in 2008. 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.

Our recent acquisitions mark 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. While the calendar year 2004, focused on capitalizing on organic growth and investing in building up the Company’s marketing and sales organization, the early part of 2005 saw a renewed focus on 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 both the CQ and McCue 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. Keeping these strategic objectives in view, 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.

NetSol is a member 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 trustees of the Equipment Leasing and Finance Foundation, the U.S. equipment leasing industry's most important reports and periodical journal.

Strategic Alliances

With its leadership position in technology and software development in Pakistan, NetSol has been actively involved in a number of partnerships with multiple international entities and corporations. These include joint ventures, systems integration, local services, as well as consulting for large enterprises. Some of NetSol's partners in Pakistan are:

- Oracle
- Infor / Datastream
- SunGard
- Intaero
- Intel
- Microsoft Gold Partner
- IBM
- Sun Microsystems
- HP
- Internet Security Systems
- FileNet
- Business Objects
- DaimlerChrysler Services
- Innovation Group PLC UK

U.S. and UK partners include Field Solutions, Group 88 and Lease Dimensions.

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.

EMEA's strategic relationship with Field Solutions opened the Company's opportunity to increase product sales of Evolve, particularly for brokers looking to start their own book. The Field Solutions strategic relationship has now been expanded through collaboration on Sales Pricing Tools to facilitate tax based leasing operations in the middle to big ticket market segment, further extending the regions' product and market reach.

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 2008 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 NetSol McCue, in the USA. Management believes that the year 2008 will follow 2006 and 2007 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 manifold. 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 key marketing initiatives have been designed to transition the brand equity built by the NetSol McCue and NetSol-CQ brands to the Company as a whole.

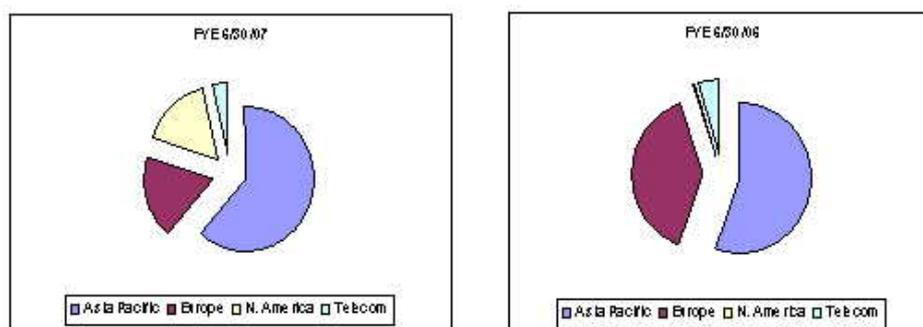
Our dedicated marketing personnel, within the business units, undertake a variety of marketing activities, including sponsoring focused client events to demonstrate our skills and products, sponsoring and participating in targeted conferences and holding private briefings with individual companies. We 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:



| | 2007 | 2006 |
|--|---------|---------|
| Asia Pacific Region (NetSol Technologies, Ltd., NetSol TiG, Abraxas) | 61.04% | 55.34% |
| Europe (NetSol-CQ, UK Ltd.) | 18.72% | 39.67% |
| North America (NetSol Technologies, Inc., NetSol McCue) | 16.92% | 0.24% |
| Telecom Sector (NetSol Connect) | 3.32% | 4.75% |
| Total Revenues | 100.00% | 100.00% |

Fiscal Year 2006-2007 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 600 employees and has become the engine of NetSol’s business model providing world class IT talent and a cost arbitrage that is attractive to western customers. This state of the art technology campus has become the envy of the industry as being the only and first CMMi level 5 company in Pakistan.

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 worldwide, continues to be the major source of revenue generation. The Pakistan operation contributed 51% of the 2007 revenues with \$14.8 million in revenues for the current year with a net profit of \$4.7 million before adjusting the minority interest. This was accomplished primarily through export of IT services and product licensed to both the domestic and overseas markets.

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 business office in the capital city of Beijing from which it expects to have more business in the future. A new business office in Bangkok, Thailand, was added in order to provide business and technical support for the Company’s Thai based customers.

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:

- 11 new implementation contracts signed during the year.
- Of these, 7 new contracts signed during the fourth quarter.
- New names in the customer list, including Fiat Automotive Finance, CNH Capital, and a large automotive blue chip company in China.
- The addition of the Fleet Management System to the LeaseSoft Suite.

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, CNH Capital Australia, Fiat Automotive Finance China, a Large Automotive Blue chip Company in China, and BMW Financial Services in China.

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

EMEA

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 ongoing marketing and sales of the LeaseSoft portfolio of leasing solutions, and NetSol's range of on and off-shore IT services.

In February 2005, NetSol acquired 100% of CQ Systems Ltd., ("NetSol-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-CQ's integration has included the continued leverage of the Company's high quality but lower cost resources in its offshore development center in Lahore, Pakistan. 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. NetSol-CQ has been able to implement significant productivity and cost improvements which have included realizing the higher level of cost efficiencies of 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.

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NetSol will continue to manage LeaseSoft pre-sales support and deliveries by having two specialized pools of resources for each of the five 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 combined EMEA group contributed approximately \$5.5 million in revenues during the current fiscal year or 19% of the Company's revenues. The total net loss was, approximately, \$832,000.

A few of EMEA's recently signed agreements include:

* A major European bank agreed to acquire our premium finance broker portal in June 2007 and is set to go live before the end of calendar year 2007.

* Kaupthing Singer and Friedlander ("KSFPF") selected NetSol-CQ to develop a fully integrated credit card payment and refund facilities. This project went live in fiscal 2007.

North America - NetSol McCue

NetSol McCue (formerly McCue Systems) 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, NetSol McCue offers the LeasePak Bronze, Silver and Gold Editions for systems and portfolios of virtually all sizes and complexities. These solutions provide the equipment and vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors. NetSol customers include such companies as Cisco, Hyundai, JP Morgan/Chase, KeyCorp Leasing, City National Bank, Bank of Tokyo Mitsubishi, La Salle National Bank, Terex Corp., National City Capital Corp., ORIX, and Volkswagen Credit.

NetSol McCue experienced a large number of upgrades from LeasePak to LeasePak 6.0 by Volkswagen Credit, Terex Corporation, LeaseDimensions, Inc., Group 88 Consulting, Key Equipment Finance, a Fortune 50 Blue-Chip worldwide IT provider, a major Fortune 100 bank, a major Korean auto manufacturer, and a major Fortune 500 bank.

NetSol McCue contributed approximately \$5.0 million in revenues during the current fiscal year or 17% of the Company's revenues. The total net profit was, approximately, \$39,000.

TIG-NetSol (Pvt) Limited, Joint Venture - Extended Innovation

The joint venture of NetSol with a UK based IT solutions provider TiG, Plc. contributed approximately \$2.6 million in revenue during the current fiscal year or 9% of the Company's revenues. The total net profit was, approximately, \$1.4 million before adjusting for the 49.9% minority interest in earnings.

In November 2004, the Company entered into a joint venture agreement with The Innovation Group ("TiG") whereby the TIG-NetSol (Pvt) Ltd., now Extended Innovation 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 50.52 percent of the new venture, with TiG owning the remaining 49.48 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 120 person team in June 2007 with the additional resources catering to the increased influx of outsourcing of configuration and testing assignments from TiG.

Prominent TiG customers being serviced from EI include Allstate Insurance Canada, Avis Budget Car Rental Group USA, Norwich Union UK, Hertz UK, Aviva Canada, Erinaceous UK and many others. Backed up by a dedicated 4Mbps fiber optic link and an additional 2Mbps wireless backup 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.

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.

NetSol Connect (Pvt) Ltd. will continue to seek to grow revenues. The revenue contribution for NetSol Connect was \$972,000 or about 3% of 2007 revenues. The total net loss was \$57,000 before adjusting the minority interest in losses.

LeaseSoft Sales

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:

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Technology Campus

Due to the Company's large domestic and international growth, the NetSol development infrastructure has required expansion. Management and the Board have approved the construction of a new structure behind the current NetSol tower in Lahore. The new building will have potential to accommodate an additional 1,000 plus engineers and programmers. We are at a designing and permit processing stage. The estimated time for completion is mid-2009 and we have budgeted for the capital expenditures required for this expansion. Meanwhile, we have acquired offices adjacent to our campus to meet the growing demand and backlog for next 18 months. We expect to move into this space in mid-September 2007 to accommodate the growth in personnel.

The original 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 a 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. Encompassing a covered area of more than 55,000 square feet and housing over 600 professionals, this is one of the largest such facilities for IT services in the region. In addition to being the headquarters for NetSol's subsidiaries in Pakistan, it also serves the NetSol group's global services and products development facility. The CMMi Level 5 rated facility ensures quality engineering practices to its clients across the globe. 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 and solid 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.

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.

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, 2007, we had 766 full-time employees; comprised of 553 IT project and technical personnel in Pakistan, UK, Australia, and US; and 213 non-IT personnel in Pakistan, UK, Australia and US. The non-IT personnel include 59 employees in management, 49 employees in sales and marketing, 28 employees in accounting, 18 in customer support, and 59 in general and administration. There are a total of 59 part-time employees. None of our employees are subject to a collective bargaining agreement. Our telecom subsidiary NetSol Connect has 113 full time employees based in Karachi, Pakistan, which are included in the total full-time employee count.

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 with CMMi level 5 accreditation.

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 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, CNH Capital Australia, Fiat Automotive Finance China, a large automotive bluechip company in China and BMW Financial Services in China. In addition, NetSol provides offshore development and testing services to The Innovation Group Plc UK and their blue chip global insurance giants like Allstate, Centent, etc. NetSol is also a strategic business partner for DaimlerChrysler (which consists of a group of many companies), which accounts for approximately 2% of our revenue. Toyota Motors (which consists of a group of many companies) accounts for approximately 9% of our revenues. No single client represents more than 10% of the revenue for the fiscal year ended June 30, 2007.

Some NetSol McCue, U.S. customers include: Volkswagen Credit U.S. & Canada; Cisco Capital; Hyundai Motor Finance; Keycorp Leasing; Bank of Tokyo Mitsubishi; Chase Equipment Finance; National City Commercial Credit; City National Bank; and, Terex Corporation. No individual NetSol McCue customer represents more than 10% of the revenues for the Company for the fiscal year ended June 30, 2007

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.

Web Presence

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. The Company also maintains a product specific website for LeaseSoft at www.leasesoft.biz and regional websites for NetSol Pakistan at www.netsolpk.com; NetSol-CQ at www.netsolcq.com; and, NetSol McCue at www.netsol-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 of 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 80% of the production and development is carried out at NetSol's technology campus in Lahore, Pakistan. The other 20% of development is conducted in the Proximity Development Center or "PDC" in Horsham, UK and 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 NetSol McCue in the U.S. US marketing operations are conducted through the parent and NetSol McCue. 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. NetSol McCue, together with the parent, supports all of the North American customers.

Approximately 80% of programming and development occurs at 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 was awarded the highest gold standard of CMMi level 5 in 2006. Despite 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 2006 and over 8% in 2007 and it is expected to sustain the same trend for years to come. According to government figures, over the past four years, economic growth has averaged 7%; making Pakistan one of Asia's fastest growing economies. For the first time in the history of Pakistan, the foreign exchange reserve has exceeded \$15 billion in comparison with just below \$2 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, including: 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 10 times to date (Karachi Stock Exchange on October 18, 2001 was at 1,103 points vs. about 12,500 recently). 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. Many other major state owned companies have been privatized attracting several big name global names such as Telenor of Norway and Warid Telecom of the Middle East. These companies have invested billions in the telecom sector in Pakistan. 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. Last year, Pakistan received a record \$5.1 billion in foreign direct investments. A new class of entrepreneurs is emerging in Pakistan, adding to the country's economic boom. 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 60th 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 2007 were:

- * The continued integration of NetSol McCue and NetSolCQ
- * 5 new clients added in China, became the biggest single market
- * A turnaround in our Australian market adding new names such as CNH Australia

- * Launch of Thailand office
- * Robust growth of NetSol's joint venture with TiG, over 120 programmers dedicated
- * Continued addition of blue chip customers such as Terex Corp, Fiat, Toyota Financial, IBM Global and Investec

Major US banks and brokerage houses such as Lehman Brothers and Merrill Lynch have been bullish on Pakistan's economy as a whole and its IT sector in particular. Lehman Brothers, in 2006-2007 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 done by Lehman Brother's research group. 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. Merrill Lynch repeatedly favored the opportunities in Pakistan and its future outlook. This is despite some recent political uncertainties in the country.

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. In addition there have been some very positive editorials in the Wall Street Journal and other major US publications on the strong fundamentals of the Pakistan economy lifting confidence of foreign investors and businesses. The \$300 million grant by the World Bank to reform the land recording system in the province of Punjab further endorses the confidence of prestigious agencies.

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.

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. Our NetSol TiG joint venture represents the best example of not only NetSol's capabilities but the ability of a Pakistan based company to achieve off shore business model success for a Western based company. This joint venture provides the major US and UK customers of TiG-UK with world class service from NetSol Pakistan, enhancing the client's productivity at much more attractive prices. Despite the overall positive outlook for Pakistan, the company is quite prepared in any contingency to use alternate development facilities located in Beijing (China), 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 NetSol-CQ and NetSol McCue 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. As of June 30, 2007, the Company has invested approximately \$888,000 on this project.

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 \$4,754. The lease is a one-year lease expiring in December 2007.

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

| <u>Location/Approximate Square Feet</u> | | <u>Purpose/Use</u> | <u>Monthly Rental Expense</u> |
|---|-------|------------------------------|-------------------------------|
| Australia. | 1,140 | Computer and General Office | \$ 1,380 |
| Beijing, China | 431 | General Office | \$ 4,315 |
| Burlingame, CA (NetSol McCue) | 8,089 | Computer and General Office | \$ 16,178 |
| Horsham, UK (NetSol-CQ) | 6,570 | Computer and General Office | \$ 10,989 |
| NetSol PK (Karachi Office) | 1,883 | General Office | \$ 1,726 |
| NetSol PK (Islamabad Office) | 3,240 | General Office & Guest House | \$ 1,417 |
| NetSol (Rawalpindi Office) | 1,112 | General Office | \$ 800 |
| Thailand | 285 | Computer and General Office | \$ 1,035 |

The Australia lease is a three-year lease that expires in May 2008 and currently is rented at the rate of \$1,380 per month. The Beijing lease is a two year lease that expires in August 2009. The monthly rent is \$4,315 per month. The Bangkok lease is a one year lease with monthly rent of \$1,035. The NetSol-CQ System facilities, located in Horsham, United Kingdom, are leased until June 23, 2011 for an annual rent of £75,000 (approximately \$144,900). NetSol McCue, Inc., located in Burlingame, California, premises are leased until June 30, 2009 with a monthly rent of \$16,178.

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 approximately \$250,000. 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 human 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 June 4, 2007. 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 | 17,643,179 | 283,037 | 98.36 | 17,926,216 |
| Naeem Ghauri | 17,641,179 | 285,037 | 98.41 | 17,926,216 |
| Salim Ghauri | 17,627,273 | 298,943 | 98.33 | 17,926,216 |
| Shahid Burki | 17,629,232 | 296,984 | 98.34 | 17,926,216 |
| Alexander Shakow | 17,643,198 | 283,018 | 98.31 | 17,926,216 |
| Eugen Beckert | 17,622,798 | 302,418 | 98.31 | 17,926,216 |
| Mark Caton | 17,635,755 | 290,461 | 98.38 | 17,926,216 |

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 |
|--------------------|------------|---------|---------|---------|
| 17,926,216 | 17,650,809 | 297,302 | 25,534 | 98.46% |

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) | 2.22 | 1.42 | 2.36 | 1.65 |
| 2nd (ended December 31) | 1.94 | 1.32 | 2.39 | 1.70 |
| 3rd (ended March 31) | 2.00 | 1.31 | 2.19 | 1.75 |
| 4th (ended June 30) | 2.05 | 1.50 | 2.40 | 1.63 |

RECORD HOLDERS - As of September 13, 2007, the number of holders of record of the Company's common stock was 227. As of September 13, 2007, there were 21,374,922 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, 2007:

| | 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 | 7,102,363(1) | 2.45(2) | 4,032,148(3) |
| Equity Compensation Plans not approved by Security holders | None | None | None |
| Total | 7,102,363 | \$ 2.45 | 4,032,148 |

(1) Consists of 31,000 under the 2001 Incentive and Nonstatutory Stock Option Plan; 972,000 under the 2002 Incentive and Nonstatutory Stock Option Plan; 745,000 under the 2003 Incentive and Nonstatutory Stock Option Plan; 3,574,363 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 812,148 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 April 2007, the Company issued a total of 37,896 shares of common stock to two consultants in exchange for services rendered. These shares were issued in reliance on an exemption from registration available under Regulation S of the Securities Act of 1933, as amended.

During the quarter ended June 30, 2007, holders of our Series A 7% Cumulative Convertible Preferred Stock converted a total of 895 shares of preferred stock into 587,878 shares of common stock. These shares were issued in reliance on exemptions from registration available under Regulation D and Regulation S of the Securities Act of 1933, as amended.

During the quarter ended June 30, 2007, holders of our Series A 7% Cumulative Convertible Preferred Stock received 54,209 shares of common stock as payment of dividends due under the terms of the Certificate of Designation. These shares were issued in reliance on exemptions from registration available under Regulation S and D of the Securities Act of 1933, as amended.

During the quarter ended June 30, 2007, the Company issued 397,700 shares of restricted common stock to the shareholders of McCue Systems, Inc. for the second installment payment due for the acquisition.

During the fiscal years ended June 30, 2007 and 2006, employees exercised options to acquire 574,273 and 285,383 shares of common stock in exchange for a total exercise price of \$2,590,473 and \$390,632 respectively.

ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATIONS

The following discussion is intended to assist in an understanding of NetSol's financial position and results of operations for the year ended June 30, 2007.

Forward Looking Information

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

The change of senior management on October 1, 2006 resulted in the creation of three new geographic regions. The division of the Company into regions is designed for better accountability, ownership and results. The regions are comprised of North America, EMEA and APAC. This restructuring is designed to provide better visibility and direction to NetSol's global operation.

NetSol also restructured the global business in two groups: Global Products and Global Services. This is a major change to provide much more focused ownership, visibility, pipeline and targeted results. The plan is to create very strong sales and marketing organizations which will work with our key resources spread out across many countries generating stronger and better coordinated results.

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

- Fully integrate management, customers, and regional products of NetSol, NetSol-CQ, and NetSol McCue.
- Launch IT services model in the US by leveraging the offshore low-cost development capabilities.
- Introduce and market two LeaseSoft modules: WSF and CAPS in the US markets.
- Expand product portfolio by enhancing current products and new releases to cater to wider global markets.

- Enhance software design, engineering and service delivery capabilities by increasing investment in training.
- Continue to invest in research and development in an amount between 7-10% of yearly budgets in financial, banking and various other domains within NetSol's core competencies.
- Recruit new sales personnel in US to grow the penetration in North American markets.
- Aggressively penetrate the booming Chinese market and continue to exploit NetSol's presence in China.
- Migrate up to 50% of development costs of US and UK operations to Lahore.
- Increase Capex, to enhance communications and development infrastructure. Roll out a second phase of construction of technology campus in Lahore to respond to a growth of new orders and customers.
- Market aggressively on a regional basis the Company's tri-product solutions by broader marketing efforts for LeaseSoft in APAC and untapped markets; aggressively grow LeasePak solutions in North America; and, further establish NetSol-CQ Enterprise solution in the European markets.

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

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

Funding and Investor Relations:

- Retained a new IR and communications firm in New York to position NetSol as a strong IT company with unlimited growth and upside outlook.
- NetSol management was invited on Sep 13, 2006 to closing bell at NASDAQ Sock Exchange.
- Adequately capitalize NetSol to face challenges and opportunities presented through the most economical means and vehicles creating further stability and sustainability.
- Focus each division level to achieve optimum profitability and efficiencies to reduce the need for new external capital other than to fund major new initiatives.
- Aggressive marketing campaign on Wall Street to get the story of NetSol known to retail, institutions, micro cap funds and analysts.
- Infuse new capital from potential exercise of outstanding investors' warrants, employees' options and debt financing for business development and enhancement of infrastructures.
- Continuing to efficiently and prudently manage cash flow and budgets. Subsidiaries will contribute to support the headquarters and corporate overheads.

- Expose NetSol to various small cap and technology investors' forum across North America.
- Make every effort to enhance NetSol's market capitalization in the US.
- Reorganize the divisions globally for seamless integration to achieve better productivity, efficiency and leverage offshore capabilities to enhance margins.

Improving the Bottom Line:

- Grow topline, enhance gross profit margins to 65% by leveraging the low-cost development facility in Lahore.
- Generate much higher revenues per developer and service group, enhance productivity and lower cost per employee overall.
- Consolidate subsidiaries and integrate and combine entities to reduce overheads and employ economies of scale.

- Continue to review costs at every level to consolidate and enhance operating efficiencies.
- Grow process automation and leverage the best practices of CMMi level 5.
- Created 3 new geographic regions: North America, EMEA and APAC to leverage the infrastructure and resources and to drive direct ownership based on revenue and the bottom line. Also broke the company's business in two business groups: Global Product Group and Global Services Group.
- More local empowerment and profit and loss ownership in each country office. Institute performance based compensation structure through three areas that includes both top-line and bottom-line targets.
- Cost efficient management of every operation and continue further consolidation to improve bottom line.
- Initiated steps to consolidate some of the new lines of services businesses to improve bottom line.

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

MATERIAL TRENDS AFFECTING NETSOL

NetSol has identified the following material trends affecting NetSol

Positive trends:

- Outsourcing of services and software development is growing worldwide.
- The leasing and finance industry in North America has increased \$260 billion and about the same size for the rest of world.
- Recent outpouring of very positive US press and research coverage by major banks such as Lehman Brothers and Merrill Lynch on Pakistan outlook and NetSol growing image and name.
- The influx of US companies and investors in addition to investors from all other parts of world to Pakistan. The US ranked to be the largest investors in Pakistan economy in current fiscal year 2007.
- The levy of Indian IT sector excise tax of 35% (NASSCOM) on software exports is very positive for NetSol. In Pakistan there is a 15 year tax holiday on IT exports of services. There are 10 more years remaining on this tax incentive.
- Cost arbitrage, labor costs still very competitive and attractive when compared with India. Pakistan is significantly under priced for IT services and programmers as compared to India.
- Pakistan is one of the fastest growing IT destinations from emerging and new markets.
- Chinese market is burgeoning and wide open for NetSol's 'niche' products and services. NetSol is gaining a strong foothold in this market.
- Only a handful of IT solutions providers in the world with global distribution network, complete end-to-end solution, and presence in the world's key and strategic markets.
- One of the few global IT companies in the leasing and finance domain with gold standard CMMi level 5 accreditation.
- NetSol and NetSol PK are both listed in one of the most visible stock indexes in their respective markets.
- NetSol majority owned subsidiary NetSol PK listed on KSE (Karachi Stock Exchange) has traded at record price of Rs. 118 in July 2007. The IPO price was Rs. 25 in August 2005.
- Overall economic expansion worldwide and explosive growth in the emerging markets specifically.

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

- Robust growth in outsourcing globally and investment of major US and European corporations in the developing countries. As demonstrated by the book ‘The World is Flat’ by Tom Friedman, there is a need for western companies to expand their businesses in emerging markets. Both Pakistan and China are in the forefront.

Negative trends:

- The disturbance in Middle East and rising terrorist activities post 9/11 worldwide have resulted in issuance of travel advisory in some of the most opportunistic markets. In addition, travel restrictions and new immigration laws provide delays and limitations on business travel.
- Negative perception and image created by extremism and terrorism in the South Asian region.
- Instability of oil prices and uncertainty about the geo-political landscape in the Middle East.
- Continuous impact of Iraq war on US and global economy.
- Political instability and uncertainty in Pakistan due to the pending government elections.

CRITICAL ACCOUNTING POLICIES

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

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS

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

INCOME TAXES

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

CASH RESOURCES

We were successful in improving our cash position by the end of our fiscal year, June 30, 2007 with \$4.0 million in cash worldwide. In addition, \$1.0 million was injected by the exercise of options by several employees in 2007 and \$1.25 million was injected from a sale of restricted common stock in a private placement.

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

Chief Executive Officer and Presidents of Global Regions

In October 2006, Mr. Naeem Ghauri resigned from his position of Chief Executive Officer and was appointed President of the European Middle East and Africa (EMEA) region as well as President of the Global Products Division. Mr. Ghauri retains his position on the board of directors. Mr. Najeeb Ghauri was named Chief Executive Officer while retaining his position as Chairman of the Board. Mr. Salim Ghauri was named President of the Asia Pacific (APAC) region and retains his position as Chief Executive Officer of NetSol Technologies Ltd. and his position on the board of directors.

Board of Directors

At the 2007 Annual Shareholders Meeting a seven member board was elected. The shareholders voted for the following slate of directors: Mr. Najeeb U. Ghauri, Mr. Salim Ghauri, Mr. Eugen Beckert, Mr. Naeem U. Ghauri, Mr. Shahid Burki, Mr. Mark Caton and Mr. Alexander Shakow.

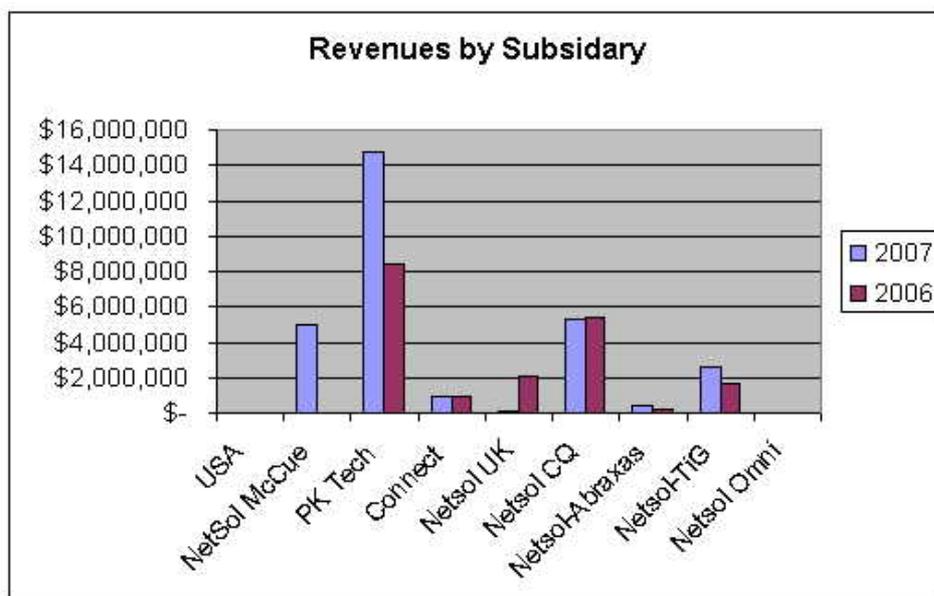
Committees

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

RESULTS OF OPERATIONS

THE YEAR ENDED JUNE 30, 2007 COMPARED TO THE YEAR ENDED JUNE 30, 2006

Net revenues for the year ended June 30, 2007 were \$29,282,086 as compared to \$18,690,412 for the year ended June 30, 2006. Net revenues are broken out among the subsidiaries as follows:



| | <u>2007</u> | | <u>2006</u> | | | |
|--------------------------|-------------|--------------------------|-----------------------|----|--------------------------|-----------------------|
| North America: | | | | | | |
| Netsol USA | \$ | 4,500 | 0.02% | \$ | 45,250 | 0.24% |
| Netsol McCue | | <u>4,948,583</u> | <u>16.90%</u> | | <u>-</u> | <u>0.00%</u> |
| | | 4,953,083 | 16.92% | | 45,250 | 0.24% |
| Europe: | | | | | | |
| Netsol UK | | 138,656 | 0.47% | | 2,038,533 | 10.91% |
| Netsol-CQ | | <u>5,344,316</u> | <u>18.25%</u> | | <u>5,376,427</u> | <u>28.77%</u> |
| | | 5,482,972 | 18.72% | | 7,414,960 | 39.67% |
| Asia-Pacific: | | | | | | |
| Netsol Tech (1) | | 14,796,001 | 50.53% | | 8,424,630 | 45.07% |
| Netsol Connect | | 972,095 | 3.32% | | 887,290 | 4.75% |
| Netsol-TiG | | 2,622,318 | 8.96% | | 1,642,256 | 8.79% |
| Netsol-Omni | | 44,151 | 0.15% | | 43,837 | 0.23% |
| Netsol-Abraxas Australia | | <u>411,466</u> | <u>1.41%</u> | | <u>232,189</u> | <u>1.24%</u> |
| | | 18,846,031 | 64.36% | | 11,230,202 | 60.09% |
| Total Net Revenues | \$ | <u><u>29,282,086</u></u> | <u><u>100.00%</u></u> | \$ | <u><u>18,690,412</u></u> | <u><u>100.00%</u></u> |

(1) Refers to NetSol Technologies Limited

The following table sets forth the items in our consolidated statement of operations for the years ended June 30, 2007 and 2006 as a percentage of revenues.

| | For the Years Ended | | | |
|--|---------------------|----------------|--------------------|---------------|
| | June 30, 2007 | | June 30, 2006 | |
| | | % of sales | | % of sales |
| Revenues: | | | | |
| Licence fees | \$ 9,788,266 | 33.43% | \$ 5,192,371 | 27.78% |
| Maintenance fees | 5,441,339 | 18.58% | 2,444,075 | 13.08% |
| Services | 14,052,481 | 47.99% | 11,053,966 | 59.14% |
| Total revenues | 29,282,086 | 100.00% | 18,690,412 | 100.00% |
| Cost of revenues: | | | | |
| Salaries and consultants | 8,812,934 | 30.10% | 6,117,886 | 32.73% |
| Depreciation and amortization | 652,669 | 2.23% | 733,370 | 3.92% |
| Travel, communication, and other | 4,193,376 | 14.32% | 2,169,262 | 11.61% |
| Total cost of sales | 13,658,979 | 46.65% | 9,020,518 | 48.26% |
| Gross profit | 15,623,107 | 53.35% | 9,669,894 | 51.74% |
| Operating expenses: | | | | |
| Selling and marketing | 2,356,831 | 8.05% | 1,789,349 | 9.57% |
| Depreciation and amortization | 1,988,603 | 6.79% | 2,286,678 | 12.23% |
| Salaries and wages | 4,294,368 | 14.67% | 2,557,648 | 13.68% |
| Professional services | 1,067,702 | 3.65% | 607,706 | 3.25% |
| Bad debt expense | 189,873 | 0.65% | 30,218 | 0.16% |
| General and administrative | 3,078,862 | 10.51% | 2,657,642 | 14.22% |
| Total operating expenses | 12,976,239 | 44.31% | 9,929,241 | 53.12% |
| Income (loss) from operations | 2,646,868 | 9.04% | (259,347) | -1.39% |
| Other income and (expenses) | | | | |
| Gain/(Loss) on sale of assets | (2,977) | -0.01% | (35,090) | -0.19% |
| Beneficial conversion feature | (2,208,334) | -7.54% | (14,389) | -0.08% |
| Amortization of debt discount | (2,803,691) | -9.57% | - | 0.00% |
| Liquidation damages | (180,890) | -0.62% | - | 0.00% |
| Fair market value of warrants issued | (68,411) | -0.23% | (21,505) | -0.12% |
| Gain on forgiveness of debt | - | 0.00% | 8,294 | 0.04% |
| Interest expense | (617,818) | -2.11% | (442,887) | -2.37% |
| Interest income | 339,164 | 1.16% | 280,276 | 1.50% |
| Other income and (expenses) | 114,423 | 0.39% | 191,736 | 1.03% |
| Income taxes | (160,306) | -0.55% | (106,021) | -0.57% |
| Total other expenses | (5,588,840) | -19.09% | (139,586) | -0.75% |
| Net loss before minority interest in subsidiary | (2,941,972) | -10.05% | (398,933) | -2.13% |
| Minority interests in earnings of subsidiary | (1,935,589) | -6.61% | (954,120) | -5.10% |
| Net loss | (4,877,561) | -16.66% | (1,353,053) | -7.24% |
| Dividend required for preferred stockholders | (237,326) | -0.81% | - | 0.00% |
| Bonus stock dividend (minority holders portion) | (345,415) | -1.18% | - | 0.00% |
| Net loss applicable to common shareholders | (5,460,302) | -18.65% | (1,353,053) | -7.24% |

The total consolidated net revenue for fiscal year 2007 was \$29,282,086 compared to \$18,690,412 in fiscal year 2006. This is a nearly 57% increase in revenue. Maintenance fee revenue increased 123% from \$2,444,075 to \$5,441,339. Revenue from services, which includes consulting and implementation, increased 27% from \$11,053,966 to \$14,052,481. The increase is attributable mostly to growth in services business, several new license sales of LeaseSoft in China, a full year of revenues attributed by NetSol McCue in the USA, growing outsourcing business of NetSol-TIG (JV) and additional maintenance work. In addition, several new business divisions were formed the latter part of last year in Lahore. The Company has experienced solid and consistent demand for IT services in the domestic sectors of Pakistan. The Company had hoped to close at least two major service contracts in Pakistan (with an approximate value of \$3 million). This is now expected to occur in within the next two quarters. Organic sales, sales without the contribution from NetSol McCue, increased 30% or \$5,643,091 to \$24,333,503 during the fiscal year. NetSol in Pakistan has been pre-qualified to participate in several public sector projects. The most significant is the World Bank funded Land Record Management Information Systems or LRMIS. This project has a World bank grant of \$300 million in Pakistan and NetSol was given a pilot project in the province of Punjab early 2007 and we anticipate to win the key projects in this area in next few quarters.

The fiscal year ended June 30, 2007 was a very busy and exciting period for NetSol worldwide. The activities for NetSol's new license sales for LeaseSoft is increasingly on the rise. The current pipeline boasts over 30 plus captive auto manufacturers and non-captives globally at an advance stage of closing or decision making.

The Company added over 12 new customers in US, APAC and EMEA regions including several new license sales, upgrades, and a few new services clients. We added 2 new major auto-captive customers in China in addition to Daimler Chrysler and Toyota Leasing. In addition, many new customers were added in Pakistan in both the public and private sectors. NetSol signed many new alliances and partnerships in fiscal year 2007.

NetSol made a significant move by acquiring 100% of a US based software company McCue Systems Inc., (now "NetSol McCue") in June 2006. The acquisition of NetSol McCue has provided the Company with a very strong and seasoned management team with a mature, profitable, business which contributes strongly to our top and bottom lines. In this first year of integration, they contributed \$4,948,583 in revenues and \$38,510 in net profits. The challenge and increased costs of integration into a global, publicly-held organization has caused the lower profit margin during the fiscal year.

Due to the revision in our pricing policy, NetSol LeaseSoft license value in APAC is in the range of \$500,000 to \$1.5 million, without factoring in services maintenance and implementation fees. Normally, NetSol negotiates 25-30% yearly maintenance contracts with customers. A number of large leasing companies will be looking to renew legacy applications. This places NetSol in a very strong position to capitalize on any upturn in IT spending by these companies. NetSol is well positioned to sell several new licenses in the second half of fiscal year 2007 that could potentially increase the sales and bottom line. As the Company continues to sell more of these licenses, management believes it is possible that the margins could increase to upward of 60%.

We have added the following new business divisions in Pakistan to expand our operations:

- **BI Consulting:** a consulting division with the initial objective of targeting the banking industry. The implementation of the new International Basel II Accord by local banks has created a huge demand for solutions that allow banks to accurately quantify their risks of incurring losses. This is a predictive capability offered by business intelligence software; and, for that purpose we've aligned ourselves with the largest financial services software company, SunGard, which is also among the top ten software companies globally.
- **Information Security (INFOSEC):** in recognition of the ever growing awareness of highly publicized IT Security problems, NetSol has established a new business unit. The unit will provide services to secure all corporate information and their supporting processes, systems and networks. INFOSEC is designed to ensure *"The right information to the right people at the right time"*. NetSol is partnering with a recognized global leader in information security (ISS - Internet Security Systems) to execute this business plan.
- **NetSol Defense Division (NDD):** in light of our coordination with the Pakistan Defense Sector, NetSol established its very own Defense Division to cater specifically to the growing demands in this domain and to deliver services with the professionalism and reliability that epitomizes NetSol's CMMi Level 5 standing.
- **Enterprise Business Solutions (EBS):** due to the dynamic nature of the business environment and the increasing demand for operational efficiency in today's world, NetSol has built its own Enterprise Business Solutions (EBS) division partnering with Oracle and DataStream. With EBS, NetSol gives companies the ability to manage, maintain and track assets, plus the ability to use this data to drive decision-making in areas such as Maintenance, Inventory, Warranty, Up-time Reliability & Risk Management.

The gross profit was \$15,623,107 for year ended June 30, 2007 as compared with \$9,669,894 for the same period of the previous year. This is a 62% increase. The gross profit percentage was 53% for the current fiscal year and 52% in the prior year. The cost of sales was \$13,658,979 in the current year compared to \$9,020,518 in the prior year. Although salaries and consultant fees increased \$2,695,048 from \$6,117,886 in the prior year to \$8,812,934, as a percentage of sales, it decreased 3% from 33% in the prior year to 30% in the current year. The company hired over 84 new programmers and engineers to meet the growing demand, including 14 for the new acquisition, NetSol McCue. The current fiscal year includes the added costs of the new acquisition of McCue Systems. In addition, the Company has added several new business divisions in Pakistan hiring the best talent in these specialized areas. It takes between 18-24 months for these new business units to fully develop their offerings and begin generating revenues. A few of these units are now producing revenues at the close of fiscal year end 2007. The rest of the divisions are anticipated to start generating revenues in the next two quarters. With the addition of NetSol-CQ and NetSol McCue, several new programmers have been hired in Lahore to learn the systems, and at the end of the current fiscal year these programmers were just beginning to finish their training period and become productive. Even with the additional costs, as a percentage of sales, the cost of sales decreased from 48% to 47%. The gross profit margin is expected to continue to improve as the integration of both the operations in Horsham, UK and Burlingame, US are fully integrated and cost savings are achieved. The Company has invested heavily in its infrastructure, both in people and equipment during the current fiscal year as it situated itself for increased growth organically and from the acquisitions of NetSol-CQ in February 2005 and NetSol McCue in June 2006.

Operating expenses were \$12,976,239 for the year ended June 30, 2007 as compared to \$9,929,241 for the year ended June 30, 2006. The increase is mainly attributable to increased selling and marketing activities, additional employees and an increase in overall activities due to our increased marketing efforts. Also contributing to the higher costs was the full integration of NetSol McCue. As a percentage of sales, operating expenses decreased 9% from 53% to 44% for fiscal 2006 and 2007, respectively.

During the years ended June 30, 2007 and 2006, the Company issued 57,755 and 67,255 restricted common shares in exchange for services rendered, respectively. The Company recorded this non-cash compensation expense of \$89,350 and \$136,117 for the years ended June 30, 2007 and 2006, respectively. Total professional service expense, including non-cash compensation, was \$1,067,702 and \$607,706 for the years ended June 30, 2007 and 2006, respectively. During the years ended June 30, 2007 and 2006, the Company recorded depreciation and amortization expense of \$1,988,603 and \$2,286,678. Salaries and wages expenses were \$4,294,368 and \$2,557,648 for the years ended June 30, 2007 and 2006, respectively, or an increase of \$1,736,720, or 68%. Included in this increase is an additional 33 employees. As a percentage of sales, salaries only increased 1% to 14.67% compared to 13.68% in the prior year. General and administrative expenses were \$3,078,862 and \$2,657,642 for the years ended June 30, 2007 and 2006, respectively, an increase of \$421,220 or 16%. As a percentage of sales, these expenses decreased 4% to 10.51% in the current year compared to 14.22% in the prior year. The increase in costs is due to the addition of the new subsidiary, NetSol McCue, three new sales offices in Pakistan, the sales office in China, increased board fees, increased travel and other expenses that supporting a large workforce entail. As of June 30, 2007, we had 825 employees world-wide.

Selling and marketing expenses increased to \$2,356,831 for the year ended June 30, 2007 as compared to \$1,789,379 for the year ended June 30, 2006, reflecting the growing sales activity of the Company and the addition of the new subsidiary, NetSol McCue and the new sales offices in Pakistan and China. As a percentage of sales, these expenses decreased 2% to 8.05% in the current year compared to 9.57% in the prior year. The Company wrote-off, as uncollectible, bad debts of \$189,873 and \$30,218, during the years ended June 30, 2007 and 2006, respectively.

The income from operations in fiscal year 2007 was \$2,646,868 compared to loss of \$259,347 in fiscal year 2006. Included in these amounts are non-cash charges of depreciation and amortization of \$1,988,603 and \$2,286,678 settlement expenses of \$15,953 and \$43,200 and bad debt expense of \$30,218 and \$13,118, respectively.

Net loss in fiscal year 2007 was \$4,877,561 compared to \$1,353,053 in fiscal year 2006 or \$3,524,508 decrease. In addition, the Company was required to pay a dividend to the preferred stockholders of \$237,326 and our subsidiary PK Tech which is listed on the Karachi Stock Exchange issued a dividend of bonus shares to its shareholders. The net value issued to the minority holders was \$345,415. These increased the net loss applicable to common shareholders to \$5,460,302. The current fiscal year amount includes a net reduction for the minority interest in earnings of \$1,935,589 compared to a reduction of \$954,120 in the prior year for the 49.9% minority interest in NetSol Connect and TIG-NetSol, and the 28.13% of NetSol Tech owned by unaffiliated parties. The Company also recognized non-recurring expenses including \$2,208,334 and \$14,389 expense for the beneficial conversion feature on notes payable and convertible debenture, \$2,803,691 and \$0 of amortized costs of debt, \$180,890 and \$0 of liquidation damages, and a gain of \$0 and \$8,294 from the settlement of a debt, respectively. In addition, the Company recorded an expense of \$68,411 and \$21,505 for the fair market value of options and warrants granted for the years ended June 30, 2007 and 2006, respectively. The net loss per share was \$0.27 in 2006 compared to net income of \$0.09 in 2006. The total weighted average of shares outstanding basic and dilutive was 18.2 million against 14.6 million basic and diluted shares in 2006.

The net EBITDA loss was \$1,417,368 compared to income of \$2,215,903 after amortization and depreciation charges of \$2,641,272 and \$3,020,048, income taxes of \$160,306 and 106,021, and interest expense of \$658,615 and \$442,887 respectively. With the addition of the non-cash charge for the amortized costs of debt of \$2,803,691 and the beneficial conversion feature expense of \$2,208,334 the adjusted pro forma EBITDA income would be \$3,594,657 for the fiscal year ended June 30, 2007 and the adjusted pro forma EBITDA earnings per share, basic and diluted, would be \$0.20. Although the net EBITDA income is a non-GAAP measure of performance, we are providing it because we believe it to be an important supplemental measure of our performance that is commonly used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry. It should not be considered as an alternative to net income, operating income or any other financial measures calculated and presented, nor as an alternative to cash flow from operating activities as a measure of our liquidity. It may not be indicative of the Company's historical operating results nor is it intended to be predictive of potential future results.

Quarterly Results of Operations for the quarter ended June 30, 2007 and June 30, 2006

Net revenues for the quarter ended June 30, 2007 and 2006 are broken out among the subsidiaries as follows:

| | 2007 | | 2006 | | | |
|--------------------------|------|-------------------------|-----------------------|----|-------------------------|-----------------------|
| North America: | | | | | | |
| Netsol USA | \$ | - | 0.00% | \$ | - | 0.00% |
| NetSol McCue | | 1,693,383 | 19.74% | | - | 0.00% |
| | | <u>1,693,383</u> | <u>19.74%</u> | | <u>-</u> | <u>0.00%</u> |
| Europe: | | | | | | |
| Netsol UK | | 44,052 | 0.51% | | 108,867 | 2.34% |
| Netsol-CQ | | 1,341,162 | 15.64% | | 1,200,128 | 25.81% |
| | | <u>1,385,214</u> | <u>16.15%</u> | | <u>1,308,995</u> | <u>28.15%</u> |
| Asia-Pacific: | | | | | | |
| Netsol Tech | | 4,307,370 | 50.22% | | 2,536,188 | 54.54% |
| Netsol Connect | | 232,261 | 2.71% | | 210,334 | 4.52% |
| Netsol-TiG | | 918,336 | 10.71% | | 519,469 | 11.17% |
| Netsol-Omni | | 167 | 0.00% | | 35,188 | 0.76% |
| Netsol-Abraxas Australia | | 39,708 | 0.46% | | 40,053 | 0.86% |
| | | <u>5,497,842</u> | <u>64.10%</u> | | <u>3,341,232</u> | <u>71.85%</u> |
| Total Net Revenues | \$ | <u><u>8,576,439</u></u> | <u><u>100.00%</u></u> | \$ | <u><u>4,650,227</u></u> | <u><u>100.00%</u></u> |

The following table presents our unaudited quarterly results of operations for the quarters ended June 30, 2007 and 2006. You should read the following table together with the consolidated financial statements and related notes contained elsewhere in this report. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. This table includes normal recurring adjustments that we consider necessary for the fair presentation of our financial position and operating results for the quarters presented. Operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

| | For the Three Months Ended | | | |
|---|----------------------------|------------|----------------|------------|
| | June 30, 2007 | | June 30, 2006 | |
| | | % of sales | | % of sales |
| Revenues: | | | | |
| Licence fees | \$ 2,936,770 | 34.24% | \$ 1,239,984 | 26.67% |
| Maintenance fees | 1,451,243 | 16.92% | 735,537 | 15.82% |
| Services | 4,188,426 | 48.84% | 2,674,706 | 57.52% |
| Total revenues | 8,576,439 | 100.00% | 4,650,227 | 100.00% |
| Cost of revenues: | | | | |
| Salaries and consultants | 2,204,328 | 25.70% | 2,020,271 | 43.44% |
| Depreciation and amortization | 60,404 | 0.70% | 239,356 | 5.15% |
| Travel, communication, and other | 985,568 | 11.49% | 797,978 | 17.16% |
| Total cost of sales | 3,250,300 | 37.90% | 3,057,605 | 65.75% |
| Gross profit | 5,326,139 | 62.10% | 1,592,622 | 34.25% |
| Operating expenses: | | | | |
| Selling and marketing | 811,328 | 9.46% | 598,443 | 12.87% |
| Depreciation and amortization | 497,461 | 5.80% | 574,907 | 12.36% |
| Salaries and wages | 895,610 | 10.44% | 870,922 | 18.73% |
| Professional services | 293,499 | 3.42% | 242,554 | 5.22% |
| Bad debt expense | 72,606 | 0.85% | 2,929 | 0.06% |
| General and administrative | 866,220 | 10.10% | 790,804 | 17.01% |
| Total operating expenses | 3,436,724 | 40.07% | 3,080,559 | 66.25% |
| Income (loss) from operations | 1,889,415 | 22.03% | (1,487,937) | -32.00% |
| Other income and (expenses) | | | | |
| Gain/(Loss) on sale of assets | 16,090 | 0.19% | (1,076) | -0.02% |
| Beneficial conversion feature | - | 0.00% | - | 0.00% |
| Amortization of debt discount and capitalized cost of debt | - | 0.00% | - | 0.00% |
| Liquidation damages | - | 0.00% | - | 0.00% |
| Fair market value of warrants issued | (34,424) | -0.40% | - | 0.00% |
| Gain on forgiveness of debt | - | 0.00% | - | 0.00% |
| Interest expense | (74,476) | -0.87% | (201,987) | -4.34% |
| Interest income | 73,248 | 0.85% | 10,391 | 0.22% |
| Other income and (expenses) | 25,488 | 0.30% | 246,333 | 5.30% |
| Income taxes | (33,686) | -0.39% | (15,130) | -0.33% |
| Total other expenses | (27,760) | -0.32% | 38,531 | 0.83% |
| Net income (loss) before minority interest in subsidiary | 1,861,655 | 21.71% | (1,449,406) | -31.17% |
| Minority interests in earnings of subsidiary | (561,508) | -6.55% | (254,248) | -5.47% |
| Net income (loss) | 1,300,147 | 15.16% | (1,703,654) | -36.64% |
| Dividend required for preferred stockholders | (77,640) | -0.91% | - | 0.00% |
| Bonus stock dividend (minority holders portion) | (345,415) | -4.03% | - | 0.00% |
| Net income (loss) applicable to common shareholders | 877,092 | 10.23% | (1,703,654) | -36.64% |
| Other comprehensive (loss)/gain: | | | | |
| Translation adjustment | (259,113) | | (100,069) | |
| Comprehensive income (loss) | \$ 617,979 | | \$ (1,803,723) | |
| Net income (loss) per share: | | | | |
| Basic | \$ 0.07 | | \$ (0.11) | |
| Diluted | \$ 0.07 | | \$ (0.11) | |
| Weighted average number of shares outstanding | | | | |
| Basic | 19,706,920 | | 15,468,248 | |
| Diluted | 19,835,177 | | 15,468,248 | |

Liquidity and Capital Resources

The Company's cash position was \$4,010,164 at June 30, 2007 compared to \$2,493,768 at June 30, 2006. In 2006, the Company had \$1,739,851 in certificates of deposit. The total cash position, including the certificates of deposits, was \$4,010,164 as of June 30, 2007 compared to \$4,233,619 as of June 30, 2006. In addition, the Company had \$4,533,555 in restricted cash as of June 30, 2006. The cash was restricted insofar as it was dedicated to specific uses as described in the financing completed in June 2006.

The Company's current assets, as of June 30, 2007, totaled \$23,237,058 and were 46.92% of total assets, a decrease of 4.8% from \$22,230,443 or 51.74% as of June 30, 2006. As of June 30, 2007, the Company's working capital (current assets less current liabilities) totaled \$11,449,252 compared to \$10,710,791 as of June 30, 2006, an increase of \$738,461. As of June 30, 2007, the Company had over \$8.4 million in accounts receivable and \$8.5 million in revenues in excess of billings.

Net cash used by operating activities amounted to \$123,528 for the year ended June 30, 2007, as compared to \$1,691,918 for the comparable period last fiscal year. The decrease is mainly due to an increase in accounts receivable and other assets offset by an increase in accounts payable. The increase in sales has resulted in an increase in accounts receivable and revenues in excess of billings. We expect to receive payments on these accounts within the next fiscal year.

Net cash used in investing activities amounted to \$7,639,916 for the year ended June 30, 2007, as compared to \$4,410,130 for the comparable period last fiscal year. The difference lies primarily in the purchase of NetSol-CQ and NetSol McCue Systems and the related increase in intangible assets acquired as well as an increase in purchases of fixed assets. During the current fiscal year, this amount included the second installment for NetSol McCue, while in the prior year the amount included the final payment for NetSol-CQ and the initial payment for NetSol McCue. The Company had purchases of property and equipment of \$2,420,470 compared to \$2,709,569 for the comparable period last fiscal year.

Net cash provided by financing activities amounted to \$9,173,555 and \$7,149,478 for years ended June 30, 2007, and 2006, respectively. The current fiscal year included the cash inflow of \$1,030,093 from the sale of common stock and \$1,008,250 from the exercising of stock options and warrants, compared to \$1,400,000 and \$669,382 in the prior year, respectively. In the current fiscal year, the Company had net proceeds from loans and capital leases of \$1,697,267 as compared to \$82,650 in the comparable period last year. In addition, the Company had dividends payable to preferred stock holders of \$77,640 in the current year. In the prior year, the Company received net proceeds of \$4,031,001 from the sale of a subsidiary's common stock in an IPO on the Karachi Stock Exchange and the Company obtained a \$5,500,000 convertible note payable to facilitate the closing of the NetSol McCue acquisition and the final cash payment of the NetSol-CQ acquisition and had \$4,533,555 in restricted cash. Again, the cash is deemed restricted in that it is designated for use in the NetSol McCue acquisition, the NetSol-CQ acquisition and as working capital according to the terms of the June 2006 financing.

The Company plans on pursuing various and feasible means of raising new funding to expand its infrastructure, enhance product offerings and strengthen marketing and sales activities in strategic markets. The strong growth in earnings and the signing of larger contracts with Fortune 500 customers largely depends on the financial strength of NetSol. Generally, the bigger name clients and new prospects diligently analyze and take into consideration a stronger balance sheet before awarding big projects to vendors. Therefore, NetSol would continue its effort to further enhance its financial resources in order to continue to attract large name customers and big value contracts. The company attracted 5 new institutional investors in 2006 that invested \$5.5 million, raising its institutional investor base to over 15%. There are over 7.1 million employees and officers options unexercised and over 3 million investor warrants remaining to be exercised.

As a growing company, we have on-going capital expenditure needs based on our short term and long term business plans. Although our requirements for capital expenses vary from time to time, for the next 12 months, we have the following capital needs:

- The third payment of NetSol McCue would be due based on the 'earn out' formula. This could be in the range of \$1.0 million to \$2.0 million in cash and common stock. This is based on an earn out structure and the Company expects to fund it through internal cash flow;
- Notes payable and related interest for approximately \$887,000;
- Liquidity damages owed to convertible note holders of approximately \$12,223;
- Working capital of \$1.0 million for US and UK business expansion, new business development activities and infrastructure enhancements.

While there is no guarantee that any of these methods will result in raising sufficient funds to meet our capital needs or that even if available will be on terms acceptable to the Company, we will consider raising capital through equity based financing and, warrant and option exercises. We would, however, use some of our internal cash flow to meet certain obligations as mentioned above. However, the Company is very conscious of the dilutive effect and price pressures in raising equity-based capital.

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

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

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

Dividends and Redemption

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

ITEM 7. FINANCIAL STATEMENTS

The Consolidated Financial Statements that constitute Item 7 are included at the end of this report on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Kabani & Company's report on NetSol's financial statements for the fiscal years ended June 30, 2006 and June 30, 2007, did not contain an adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audit of NetSol's financial statements for the fiscal years ended June 30, 2006 and June 30, 2007 there were no disagreements, disputes, or differences of opinion with Kabani & Company on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures, which, if not resolved to the satisfaction of Kabani & Company would have caused Kabani & Company to make reference to the matter in its report.

ITEM 8A. CONTROLS AND PROCEDURES

Management, under the supervision and with the participation of the chief executive officer and chief financial officer, conducted an evaluation of the disclosure controls and procedures as defined in Rule 13a-15(e) as of the fiscal quarter ended on June 30, 2007. Based upon that evaluation, the Chairman, Chief Financial Officer and Chief Executive Officer concluded that our disclosure controls and procedures are effective.

There has been no change, including corrective actions with regard to deficiencies or weaknesses in the Company's internal controls or in other factors that has materially affected, or is reasonably likely to materially affect, these internal controls over financial reporting.

ITEM 8B. OTHER MATTERS

Effective September 18, 2007, the Board of Directors adopted the following amendments/modifications to its committee charters and Code of Ethics:

Audit Committee Charter. The Charter has been amended to permit the committee chair to cast a deciding vote in the event of a tie vote by the committee. A provision has been added permitting the committee to evaluate its own performance. Finally, the physical address of the Corporate Secretary has been added to Annex A which explains the procedures for submitting claims or complaints.

Compensation Committee Charter. The Charter has been amended to permit the committee chair to cast a deciding vote in the event of a tie vote by the committee.

Nominating and Corporate Governance Charter. The Charter has been amended to permit the committee chair to cast a deciding vote in the event of a tie vote by the committee. Further, the Charter has been amended to augment the Company's insider trading policy by establishing a black-out trading period during the periods from the end of a quarterly period until the Company's quarterly reports are filed with the SEC and from 30 days prior to the filing of the Company's annual report with the SEC. This additional policy does not, in any way, modify or lessen the continued insider trading prohibitions and policies set forth in the Charter.

Code of Ethics. The Code of Ethics has been amended to augment the Company's insider trading policy by establishing a black-out trading period during the periods from the end of a quarterly period until the Company's quarterly reports are filed with the SEC and from 30 days prior to the filing of the Company's annual report with the SEC. This additional policy does not, in any way, modify or lessen the continued insider trading prohibitions and policies set forth in the Code.

The amended charters have been posted on the Company's website, www.netsoltek.com and the amended Code of Ethics is filed as an exhibit to this report.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

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

Based solely on copies of such forms furnished as provided above, or written representations that no Forms 5 were required, the Company believes that during the fiscal year ended June 30, 2007, all Section 16(a) filing requirements applicable to its executive officers, directors and beneficial owners of more than 10% of its Common Stock were complied with.

DIRECTORS AND EXECUTIVE OFFICERS

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

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

| Name | Year First Elected As an Officer or Director | Age | Position Held with the Registrant | Family Relationship |
|-----------------------|--|-----|-----------------------------------|------------------------------------|
| Najeeb Ghauri | 1997 | 53 | Director and Chairman | Brother to Naeem and Salim Ghauri |
| Salim Ghauri | 1999 | 52 | President and Director | Brother to Naeem and Najeeb Ghauri |
| Naeem Ghauri | 1999 | 50 | Chief Executive Officer, Director | Brother to Najeeb and Salim Ghauri |
| Tina Gilger | 2005 | 45 | Chief Financial Officer | None |
| Patti L. W. McGlasson | 2004 | 42 | Secretary, General Counsel | None |
| Shahid Javed Burki | 2000 | 69 | Director | None |
| Eugen Beckert | 2001 | 60 | Director | None |
| Mark Caton | 2002 | 58 | Director | None |
| Alexander Shakow | 2007 | 70 | Director | None |

Business Experience of Officers and Directors:

NAJEEB U. GHAURI is the Chief Executive Officer and Chairman of NetSol. He has been a Director of the Company since 1997, Chairman since 2003 and Chief Executive Officer since October 2006. Mr. Ghauri is the co founder of NetSol Technologies, Inc. He was responsible for NetSol listing on NASDAQ in 1999 and NetSol subsidiary listing on KSE (Karachi Stock Exchange) in 2005. Mr. Ghauri was most instrumental in transforming NetSol (formerly Mirage Holdings, Inc.) from a clothing/ apparel business to a fully focused global IT company. Mr. Ghauri served as the Company's Chief Executive Officer from 1999 to 2001 and as the Chief Financial Officer from 2001 to 2005. As CEO, Mr. Ghauri is responsible for managing the day-to-day operations of the Company, as well as the Company's overall growth and expansion plan. In addition to numerous accomplishments at NetSol, Mr. Ghauri was honored to ring the closing bell at NASDAQ Stock Exchange in September 2006. Prior to joining the Company, Mr. Ghauri was part of the marketing team of Atlantic Richfield Company (ARCO) (now acquired by BP), a Fortune 500 company, from 1987-1997. Prior to ARCO, he spent nearly 5 years with Unilever as brand and sales managers. Mr. Ghauri received his Bachelor of Science degree in Management/Economics from Eastern Illinois University in 1979, and his M.B.A. in Marketing Management from Claremont Graduate School in California in 1982. Mr. Ghauri was elected Vice Chairman of US Pakistan Business Council in 2006. A Washington D.C. based council of US Chamber of Commerce. He is also very active in several philanthropic activities in emerging markets and is a founding director Pakistan Human Development Fund, a non-profit organization, a partnership with UNDP to promote literacy, health services and poverty alleviation in Pakistan.

SALIM GHAURI has been with the Company since 1999 as the President and Director of the Company. Mr. Ghauri is currently the Chairman and CEO of NetSol Technologies Limited and President of the Asia Pacific Region and CEO of Global Services Group. Mr. Ghauri was the founder of Network Solutions (Pvt.) Ltd. in 1995, Later NetSol Technologies (Pvt) Limited. Built under his leadership, NetSol gradually built a strong team of IT professionals and infrastructure in Pakistan and became the first software house in Pakistan certified as ISO 9001 and CMMi Level 5 assessed. Mr. Ghauri received his Bachelor of Science degree in Computer Science from University of Punjab in Lahore, Pakistan. Before NetSol Technologies Ltd., Mr. Ghauri was employed with BHP in Sydney, Australia from 1987-1995, where he commenced his employment as a consultant. Mr. Ghauri was appointed in 2007 as an Honorary Consul for Australia-Punjab Region.

NAEEM GHARI has been a Director of the Company since 1999 and was the Company's Chief Executive Officer from August 2001 to October 2006. Mr. Ghauri serves as the Managing Director of NetSol (UK) Ltd., a wholly owned subsidiary of the Company located in London, England. Mr. Ghauri was responsible for the launch of NetSol Connect in Pakistan. Prior to joining the Company, Mr. Ghauri was Project Director for Mercedes-Benz Finance Ltd., a subsidiary of DaimlerChrysler, Germany from 1994-1999. Mr. Ghauri supervised over 200 project managers, developers, analysis and users in nine European Countries. Mr. Ghauri earned his degree in Computer Science from Brighton University, England. Mr. Ghauri serves on the board of NetSol CQ, a subsidiary of the Company.

TINA GILGER joined NetSol as Chief Financial Officer in July 2005. Ms. Gilger has acted as a consultant to the Company since October 2003 in the capacity of controller. In the three years prior to becoming NetSol's CFO, Ms. Gilger acted as an audit liaison for six reporting public companies, of which one was NetSol. From 2000 to 2002, Ms. Gilger acted as audit liaison for a public company specializing in reverse mergers for public companies listed on the OTC:BB. Ms. Gilger received her degree in Accounting, with an emphasis in Business Management from the University of Utah in 1990. Ms. Gilger was licensed as a Certified Public Accountant by the State of California in 1992, passing all four parts of the exam on the first attempt.

PATTI L. W. MCGLASSON joined NetSol as General Counsel in January 2004 and was elected to the position of Secretary in March 2004. Prior to joining NetSol, Ms. McGlasson practiced at Vogt & Resnick, law corporation, where her practice focused on corporate, securities and business transactions. As part of her Masters in Law in Transnational Business, she interned at the law firm of Loeff Claey Verbeke in Rotterdam, the Netherlands in 1991. Ms. McGlasson was admitted to practice in California in 1991. She received her Bachelor of Arts in Political Science in 1987 from the University of California, San Diego and, her Juris Doctor and Masters in Law in Transnational Business from the University of the Pacific, McGeorge School of Law, in 1991 and 1993, respectively.

EUGEN BECKERT was appointed to the Board of Directors in August 2001 to fill a vacancy and continues to serve on the Board. A native of Germany, Mr. Beckert received his masters in Engineering and Economics from the University of Karlsruhe, Germany. Mr. Beckert was with Mercedes-Benz AG/Daimler Benz AG from 1973, working in technology and systems development. In 1992, he was appointed director of Global IT (CIO) for Debis Financial Services, the services division of Daimler Benz. From 1996 to 2000, he acted as director of Processes and Systems (CIO) for Financial Services of DaimlerChrysler Asia Pacific Services. During this period he was instrumental to having the LEASESOFT products of NetSol developed and introduced in several countries as a pilot customer. From 2001 to 2004, he served as Vice President in the Japanese company of DCS. Mr. Beckert retired from DaimlerChrysler in November 2006. Mr. Beckert is chairman of the Nominating and Corporate Governance Committee and a member of the Audit and Compensation Committees.

SHAHID JAVED BURKI was appointed to the Board of Directors in February 2003. He had a distinguished career with World Bank at various high level positions from 1974 to 1999. He was a Director of Chief Policy Planning with World Bank from 1974-1981. He was also a Director of International Relations from 1981-1987. Mr. Burki served as Director of China Development from 1987-1994 and, Vice President of Latin America with the World Bank from 1994-1999. In between, he briefly served as the Finance Minister of Pakistan from 1996-1997. Mr. Burki also served as the CEO of the Washington based investment firm EMP Financial Advisors from 1992-2002. Presently, he is the Chairman of Pak Investment & Finance Corporation. He was awarded a Rhodes scholarship in 1962 and M.A in Economics from Oxford University in 1963. He also earned a Master of Public Administration degree from Harvard University, Cambridge, MA in 1968. Most recently, he attended Harvard University and completed an Executive Development Program in 1998. During his lifetime, Mr. Burki has authored many books and articles including: *China's Commerce* (Published by Harvard in 1969) and *Accelerated Growth in Latin America* (Published by World Bank in 1998). Mr. Burki is a chairman of the Compensation Committee and a member of the Audit and Nominating and Corporate Governance Committees.

MARK CATON joined the board of directors of NetSol on January 1, 2007 to fill a vacancy and was elected to the board in June 2007. Mr. Caton is currently President of Centela Systems, Inc. a distributor of computer peripheral solutions in the multimedia and digital electronic market segment, a position he has held since 2003. Prior to joining Centela, Mr. Caton was President of NetSol Technologies USA, responsible for US sales, from June 2002 to December 2003. Mr. Caton was employed by ePlus from 1997 to 2002 as Senior Account Representative. He was a member of the UCLA Alumni Association Board of Directors and served on the Board of Directors of NetSol from 2002-2003. Mr. Caton is a Chairman of the Compensation Committee and a member of the Audit and Nominating Committees. Mr. Caton received his BA from UCLA in psychology in 1971.

ALEXANDER SHAKOW joined the board on June 4, 2007. Mr. Shakow had a distinguished career with the World Bank where he held various high level positions from 1981-2002. Since 2002, he has been an independent consultant for various international organizations. From 1968-1981, Mr. Shakow held many senior positions at the United States Agency for International Development, including Assistant Administrator for Program and Policy; Director -Office of Development and Planning, Bureau for Asia; and, Director - Indonesia, Malaysia and Singapore affairs. Mr. Shakow was also a staff member of the United States Peace Corps from 1963-1968, including director in Indonesia. Mr. Shakow received his PhD from the London School of Economics and Political Science in 1962. He earned his undergraduate degree with honors from Swarthmore College in 1958. Mr. Shakow is listed in *Who's Who in America* and *Who's Who in the World*; and currently is a member of the Board of Trustees of EnterpriseWorks/VITA. Mr. Shakow is a member of the Audit, Compensation and Nominating and Corporate Governance Committees.

ITEM 10-EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy and Objectives

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

Setting Executive Compensation

Management develops our compensation plans by utilizing publicly available compensation data in the media services and technology industries. We believe that the practices of these groups of companies provide us with appropriate compensation benchmarks, because these groups of companies are in similar businesses and tend to compete with us for executives and other employees. For benchmarking executive compensation, we typically review the compensation data we have collected from these groups of companies, as well as a subset of the data from those companies that have a similar number of employees as the Company. For purposes of determining executive compensation, we have not engaged consultants to help us analyze this data or to compare our compensation programs with the practices of the companies represented in the compensation data we review.

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

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

- the individual's particular background, track record and circumstances, including training and prior relevant work experience;
- the individual's role with us and the compensation paid to similar persons in the companies represented in the compensation data that we review;
- the demand for individuals with the individual's specific expertise and experience;
- performance goals and other expectations for the position; and,

- uniqueness of industry skills.

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

2007 Executive Compensation Components

For the fiscal year ended June 30, 2007, the principal components of compensation that our named executive officers were eligible to receive were:

- Base salary;
- Long Term Equity Incentive Compensation;
- Performance-based incentive compensation (discretionary bonus); and,
- Perquisites and other personal benefits.

Base Salary

An executive's base salary is evaluated together with components of the executive's other compensation to ensure that the executive's total compensation is consistent with our overall compensation philosophy.

The base salaries were established in arms-length negotiations between the executive and the Company, taking into account their extensive experience, knowledge of the industry, track record, and achievements on behalf of the Company.

Base salaries are adjusted annually by the Compensation Committee.

Annual Bonus

Our compensation program includes eligibility for bonuses as rewarded by the Compensation Committee. All executives are eligible for annual performance-based cash bonuses in accordance with Company policies.

During our fiscal year ended 2007, Mr. Najeeb Ghauri was awarded a cash bonus of \$50,000. Ms. Gilger was awarded a cash bonus of \$7,004. Ms. McGlasson was awarded a cash bonus of \$6,536. Mr. Salim Ghauri was awarded a cash bonus of \$50,000 and Mr. Naeem Ghauri was awarded a cash bonus of \$50,000.

Long-Term Equity Incentive Compensation

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

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

Perquisites and Other Personal Benefits

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

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

Termination Based Compensation

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

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

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

Tax and Accounting Implications

Deductibility of Executive Compensation

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

Accounting for Stock-Based Compensation

Beginning on July 1, 2006, we began accounting for stock-based payments, including awards under our Employee Stock Option Plans, in accordance with the requirements of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123(R).

Summary Compensation Table

The following table shows the compensation for the fiscal year ended June 30, 2007 earned by our Chairman and Chief Executive Officer, our Chief Financial Officer who is our Principal Financial and Accounting Officer, and others considered to be executive officers of the Company.

| Name and Principle Position | Fiscal Year Ended | Salary (\$) | Bonus (\$) | Stock Awards (\$)(1) | Option Awards (\$)(2) | All Other Compensation (\$) | Total (\$) |
|--|-------------------|-------------|------------|----------------------|-----------------------|-----------------------------|------------|
| Najeeb Ghauri Chief Executive Officer, Chairman | 2007 | \$ 275,000 | \$ 50,000 | \$ - | \$ - (3) | \$ 46,700 (5) | \$ 371,700 |
| | 2006 | \$ 250,000 | \$ - | \$ - | \$ - (4) | \$ 26,656 (5) | \$ 276,656 |
| Naeem Ghauri Chief Executive Officer, Global Products Division | 2007 | \$ 225,000 | \$ 50,000 | \$ - | \$ - (3) | \$ 34,660 (6) | \$ 309,660 |
| | 2006 | \$ 280,000 | \$ - | \$ - | \$ - (4) | \$ 31,903 (6) | \$ 311,903 |
| Salim Ghauri Chief Executive Officer, Global Services Division | 2007 | \$ 175,000 | \$ 50,000 | \$ - | \$ - (3) | \$ - (7) | \$ 225,000 |
| | 2006 | \$ 150,000 | \$ - | \$ - | \$ - (4) | \$ - (7) | \$ 150,000 |
| Tina Gilger Chief Financial Officer | 2007 | \$ 95,000 | \$ 7,004 | \$ - | \$ - (3) | \$ 17,587 (8) | \$ 119,591 |
| | 2006 | \$ 95,000 | \$ 7,096 | \$ - | \$ - (4) | \$ 12,188 (8) | \$ 114,284 |
| Patti L. W. McGlasson Secretary, General Counsel | 2007 | \$ 110,000 | \$ 6,536 | \$ - | \$ - (3) | \$ - (9) | \$ 116,536 |
| | 2006 | \$ 110,000 | \$ - | \$ 19,397 (2) | \$ - (4) | \$ - (9) | \$ 129,397 |

(1) No stock was awarded to any officer during the fiscal year ended June 30, 2007 and therefore, no expense was recognized in the consolidated financial statements.

(2) For the fiscal year ended June 30, 2006, 10,000 shares of common stock were awarded to Ms. McGlasson for compensation in her role as general counsel. Based on the fair market value at the date of issuance the Company recorded \$19,397 in expense for the stock awarded. No other officer was awarded stock during the fiscal year.

(3) No options were awarded to any officer during the fiscal year ended June 30, 2007 and therefore, no expense was recognized in the consolidated financial statements.

(4) See Note 11 to our Consolidated Financial Statements included herein as to the assumptions used to determine the fair value of our option awards. During fiscal year ended June 30, 2006, FAS 123R was not effective for the Company and therefore, the Company did not record any expense for the options awarded. The following table reflects the options granted to each officer and the amount the Company would have been required to record had FAS 123R been effective:

Options Granted FYE 2006

| NAME | # SHARES | EXERCISE PRICE | BLACK SCHOLES VALUE | FAIR VALUE |
|-----------------|----------|----------------|---------------------|------------|
| Najeeb Ghauri | 250,000 | \$ 1.83 | \$ 1.676 | \$ 419,000 |
| | 250,000 | \$ 2.50 | \$ 2.323 | \$ 580,750 |
| Naeem Ghauri | 250,000 | \$ 1.83 | \$ 1.676 | \$ 419,000 |
| | 250,000 | \$ 2.50 | \$ 2.323 | \$ 580,750 |
| Salim Ghauri | 250,000 | \$ 1.83 | \$ 1.676 | \$ 419,000 |
| | 250,000 | \$ 2.50 | \$ 2.323 | \$ 580,750 |
| Tina Gilger | 10,000 | \$ 1.86 | \$ 1.249 | \$ 12,490 |
| | 10,000 | \$ 2.79 | \$ 1.106 | \$ 11,060 |
| | 20,000 | \$ 1.65 | \$ 1.108 | \$ 22,160 |
| | 20,000 | \$ 2.25 | \$ 1.012 | \$ 20,240 |
| Patti McGlasson | 20,000 | \$ 1.65 | \$ 1.108 | \$ 22,160 |
| | 20,000 | \$ 2.25 | \$ 1.012 | \$ 20,240 |

(5) Consists of \$29,000 and \$12,000 paid for automobile and travel allowance and \$17,856 and \$14,656 paid for medical and dental insurance premiums paid by the Company for participation in the health insurance program for the fiscal years ended June 30, 2007 and 2006, respectively.

(6) Consists of \$31,876 and \$29,340 paid for automobile and travel allowance and \$2,784 and \$2,562 paid for private medical insurance premiums paid by the Company for the fiscal years ended June 30, 2007 and 2006, respectively.

(7) The amount paid to the officer was in aggregate less than \$10,000 for the fiscal years ended June 30, 2007 and 2006, respectively.

(8) Consists of \$17,587 and \$12,188 paid for medical and dental insurance premiums paid by the Company for participation in the health insurance program for the fiscal years ended June 30, 2007 and 2006, respectively.

(9) The amount paid to the officer was in aggregate less than \$10,000 for the fiscal years ended June 30, 2007 and 2006, respectively.

Grants of Plan-Based Awards

There were no options granted to the named executives during the fiscal year ended June 30, 2007.

Discussion of Summary Compensation Table

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

Employment Agreement with Najeeb Ghauri

Effective January 1, 2007, the Company entered into an Employment Agreement with our Chief Executive Officer, Najeeb Ghauri. Pursuant to the Employment Agreement between Mr. Ghauri and the Company (the "CEO Agreement"), the Company agreed to employ Mr. Ghauri as its Chief Executive Officer from the date of the CEO Agreement through December 31, 2009. Under the CEO Agreement, Mr. Ghauri is entitled to an annualized base salary of \$275,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, Mr. Ghauri is entitled to participate in the

Company's stock option plans, is entitled to two weeks of paid vacation per calendar year and is to receive a car allowance totaling \$3,000 per month for the term of the CEO Agreement. Finally, during the term of the CEO Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of Mr. Ghauri, his spouse and dependent family members under the Company's health and related benefit plans.

The CEO Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the CEO Agreement, if he terminates his employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, he shall be entitled to all remaining salary from the termination date until 36 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and, continuation of all health related plan benefits for a period of 36 months. He shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If he is terminated by the Company for Cause (as described below), or at the end of the employment term, he shall not be entitled to further compensation. Under the CEO Agreement, Good Reason includes the assignment of duties inconsistent with his title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 30 miles, if the Company asks him to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the CEO Agreement by the Company. Under the CEO Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform his duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the CEO Agreement by Mr. Ghauri.

The above summary of the CEO Agreement is qualified in its entirety by reference to the full text of the CEO Agreement, a copy of which was filed as an exhibit to this report.

Employment Agreement with Naeem Ghauri

Effective January 1, 2007, the Company entered into an Employment Agreement with our President of the EMEA Region and Chief Executive Officer of the Global Products Division, Naeem Ghauri. Pursuant to the Employment Agreement between Mr. Ghauri and the Company (the "President EMEA Agreement"), the Company agreed to employ Mr. Ghauri as its President of the EMEA region and Chief Executive Officer of the Global Products Division from the date of the President EMEA Agreement through December 31, 2009. Under the President EMEA Agreement, Mr. Ghauri is entitled to an annualized base salary of \$225,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, Mr. Ghauri is entitled to participate in the Company's stock option plans, is entitled to two weeks of paid vacation per calendar year and is to receive a car allowance totaling \$2,000 per month for the term of the President EMEA Agreement. Finally, during the term of the President EMEA Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of Mr. Ghauri, his spouse and dependent family members under the Company's health and related benefit plans.

The President EMEA Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the President EMEA Agreement, if he terminates his employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, he shall be entitled to all remaining salary from the termination date until 36 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and, continuation of all health related plan benefits for a period of 36 months. He shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If he is terminated by the Company for Cause (as described below), or at the end of the employment term, he shall not be entitled to further compensation. Under the President EMEA Agreement, Good Reason includes the assignment of duties inconsistent with his title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 30 miles, if the Company asks him to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the President EMEA Agreement by the Company. Under the President EMEA Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform his duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the President EMEA Agreement by Mr. Ghauri.

The above summary of the President EMEA Agreement is qualified in its entirety by reference to the full text of the President EMEA Agreement, a copy of which was filed as an exhibit to this report.

Employment Agreement with Salim Ghauri

Effective January 1, 2007, the Company entered into an Employment Agreement with our President of the APAC Region and Chief Executive Officer of the Global Services Division, Mr. Salim Ghauri. Pursuant to the Employment Agreement between Mr. Ghauri and the Company (the "President APAC Agreement"), the Company agreed to employ Mr. Ghauri as its President APAC and Chief Executive Officer of the Global Services Division from the date of the President APAC Agreement through December 31, 2009. Under the President APAC Agreement, Mr. Ghauri is entitled to an annualized base salary of \$175,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, Mr. Ghauri is entitled to participate in the Company's stock option plans, is entitled to two weeks of paid vacation per calendar year. Finally, during the term of the President APAC Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of Mr. Ghauri, his spouse and dependent family members under the Company's health and related benefit plans.

The President APAC Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the President APAC Agreement, if he terminates his employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, he shall be entitled to all remaining salary from the termination date until 36 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and, continuation of all health related plan benefits for a period of 36 months. He shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If he is terminated by the Company for Cause (as described below), or at the end of the employment term, he shall not be entitled to further compensation. Under the President APAC Agreement, Good Reason includes the assignment of duties inconsistent with his title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 30 miles, if the Company asks him to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the President APAC Agreement by the Company. Under the President APAC Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform his duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the President APAC Agreement by Mr. Ghauri.

The above summary of the President APAC Agreement is qualified in its entirety by reference to the full text of the President APAC Agreement, a copy of which was filed as an exhibit to this report.

Employment Agreement with Patti L. W. McGlasson

Effective May 1, 2006, the Company entered into an Employment Agreement with our Secretary and General Counsel, Ms. Patti L. W. McGlasson. Pursuant to the Employment Agreement between Ms. McGlasson and the Company (the "General Counsel Agreement"), the Company agreed to employ Ms. McGlasson as its Secretary and General Counsel from the date of the General Counsel Agreement through April 30, 2008. Under the General Counsel Agreement, Ms. McGlasson was entitled to an annualized base salary of \$110,000 and is eligible for annual bonuses at the discretion of the Chief Executive Officer. Effective August 1, 2007, Ms. McGlasson's annualized salary was raised to \$130,000. The Company retained the right to increase the base compensation as it deems necessary. In addition, Ms. McGlasson is entitled to participate in the Company's stock option plans and, is entitled to two weeks of paid vacation per calendar year. Finally, during the term of the General Counsel Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of Ms. Ghauri, hers spouse and dependent family members under the Company's health and related benefit plans.

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

The above summary of the General Counsel Agreement is qualified in its entirety by reference to the full text of the General Counsel Agreement, a copy of which was filed as an exhibit to the Company's 10-KSB for the fiscal year ended June 30, 2006 on September 27, 2006.

Outstanding Equity Awards at Fiscal Year-End

The following table shows grants of stock options and grants of invested stock awards outstanding on June 30, 2007, the last day of our fiscal year, to each of the individuals named in the Summary Compensation Table.

| NAME | NUMBER OF SECURITIES UNDERLYING OPTIONS (#) EXERCISABLE | NUMBER OF SECURITIES UNDERLYING OPTIONS (#) UNEXERCISABLE | OPTION EXERCISE PRICE (\$) | OPTION EXPIRATION DATE |
|-----------------------|---|---|----------------------------------|------------------------------|
| Najeeb Ghauri | 100,000 | - | 2.21 | 1/1/14 |
| | 100,000 | | 3.75 | 1/1/14 |
| | 50,000 | | 5.00 | 1/1/14 |
| | 20,000 | | 2.64 | 3/26/14 |
| | 30,000 | | 5.00 | 3/26/14 |
| | 374,227 | | 1.94 | 4/1/15 |
| | 500,000 | | 2.91 | 4/1/15 |
| | 250,000 | | 1.83 | 6/2/16 |
| | 250,000 | | 2.50 | 6/2/16 |
| Naeem Ghauri | 100,000 | - | 2.21 | 1/2/14 |
| | 100,000 | | 3.75 | 1/2/14 |
| | 50,000 | | 5.00 | 1/2/14 |
| | 20,000 | | 2.64 | 3/26/14 |
| | 30,000 | | 5.00 | 3/26/14 |
| | 10,000 | | 2.50 | 2/16/12 |
| | 374,227 | | 1.94 | 4/1/15 |
| | 500,000 | | 2.91 | 4/1/15 |
| | 250,000 | | 1.83 | 6/2/16 |
| 250,000 | | 2.50 | 6/2/16 | |
| Salim Ghauri | 100,000 | - | 2.21 | 1/2/14 |
| | 100,000 | | 3.75 | 1/2/14 |
| | 50,000 | | 5.00 | 3/26/14 |
| | 20,000 | | 2.64 | 3/26/14 |
| | 30,000 | | 5.00 | 3/26/14 |
| | 20,000 | | 2.50 | 2/16/12 |
| | 374,227 | | 1.94 | 4/1/15 |
| | 500,000 | | 2.91 | 4/1/15 |
| | 250,000 | | 1.83 | 6/2/16 |
| 250,000 | | 2.50 | 6/2/16 | |
| Tina Gilger | 10,000 | - | 1.86 | 7/20/15 |
| | 10,000 | | 2.79 | 7/20/15 |
| | 20,000 | | 1.65 | 7/7/15 |
| | 20,000 | | 2.25 | 7/7/15 |
| | | | | |
| Patti L. W. McGlasson | 10,000 | - | 3.00 | 1/1/14 |
| | 20,000 | | 2.64 | 3/26/14 |
| | 30,000 | | 5.00 | 3/26/14 |
| | 20,000 | | 1.65 | 7/7/15 |
| | 20,000 | | 2.25 | 7/7/15 |

Option Exercises and Stock Vested

Mr. Najeeb Ghauri exercised options to acquire 125,773 shares of common stock of the Company at the exercise price of \$1.94 per share during the last fiscal year.

Mr. Naeem Ghauri exercised options to acquire 125,773 shares of common stock of the Company at the exercise price of \$1.94 per share during the last fiscal year.

Mr. Salim Ghauri exercised options to acquire 125,773 shares of common stock of the Company at the exercise price of \$1.94 per share during the last fiscal year.

Pension Benefits

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

Potential Payments upon Termination or Change of Control

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

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

Change-in-Control Payments

Najeeb Ghauri, Chairman and Chief Executive Officer

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

The following table summarizes the potential payments to Mr. Ghauri assuming his employment with us was terminated or a change of control occurred on June 30, 2007, the last day of our most recently completed fiscal year.

| BENEFITS AND PAYMENTS | CHANGE OF CONTROL | TERMINATION UPON DEATH OR DISABILITY | TERMINATION |
|-----------------------------------|-------------------------|---|---|
| | | | BY US WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD CAUSE |
| Base Salary | \$ 878,103 | \$ - | \$ 878,103 |
| Bonus | 50,000 | | |
| Salary Multiple Pay-out | 822,250 | | |
| Bonus or Revenue One-time Pay-Out | 292,821 | | |
| Net Cash Value of Options | 1,399,145 | | |
| Total | \$ 3,442,319 | \$ - | \$ 878,103 |

Naeem Ghauri, President EMEA and Chief Executive Officer of Global Products Division

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

The following table summarizes the potential payments to Mr. Ghauri assuming his employment with us was terminated or a change of control occurred on June 30, 2007, the last day of our most recently completed fiscal year.

| | CHANGE OF CONTROL | TERMINATION UPON DEATH OR DISABILITY | TERMINATION BY US WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD CAUSE |
|-----------------------------------|-------------------------|---|--|
| BENEFITS AND PAYMENTS | | | |
| Base Salary | \$ 675,000 | \$ - | \$ 675,000 |
| Bonus | 50,000 | | |
| Salary Multiple Pay-out | 672,750 | | |
| Bonus or Revenue One-time Pay-Out | 292,821 | | |
| Net Cash Value of Options | 1,406,745 | | |
| Total | \$ 3,097,316 | \$ - | \$ 675,000 |

Salim Ghauri, President APAC and Chief Executive Officer of Global Services Division

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

The following table summarizes the potential payments to Mr. Ghauri assuming his employment with us was terminated or a change of control occurred on June 30, 2007, the last day of our most recently completed fiscal year.

| BENEFITS AND PAYMENTS | CHANGE OF CONTROL | TERMINATION UPON DEATH OR DISABILITY | TERMINATION BY US WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD CAUSE |
|-----------------------------------|-------------------------|---|--|
| Base Salary | \$ 525,000 | \$ - | \$ 525,000 |
| Bonus | 50,000 | | |
| Salary Multiple Pay-out | 523,250 | | |
| Bonus or Revenue One-time Pay-Out | 292,821 | | |
| Net Cash Value of Options | 1,414,345 | | |
| Total | \$ 2,805,416 | \$ - | \$ 525,000 |

Patti L. W. McGlasson, Secretary and General Counsel

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

The following table summarizes the potential payments to Ms. McGlasson assuming her employment with us was terminated or a change of control occurred on June 30, 2007, the last day of our most recently completed fiscal year.

| BENEFITS AND PAYMENTS | CHANGE OF CONTROL | TERMINATION UPON DEATH OR DISABILITY | TERMINATION BY US WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD CAUSE |
|-----------------------------------|-------------------------|---|--|
| Base Salary | \$ 110,000 | \$ - | \$ 110,000 |
| Bonus | 6,536 | | |
| Salary Multiple Pay-out | 328,900 | | |
| Bonus or Revenue One-time Pay-Out | 146,410 | | |
| Net Cash Value of Options | 136,800 | | |
| Total | \$ 728,646 | \$ - | \$ 110,000 |

Director Compensation

Director Compensation Table

The following table sets forth a summary of the compensation earned by our Directors and/or paid to certain of our Directors pursuant to the Company's compensation policies for the fiscal year ended June 30, 2007, other than Najeeb Ghauri, Nacem Ghauri and Salim Ghauri who are executives and directors.

| NAME | FEEES EARNED OR PAID IN CASH | OPTION AWARDS | TOTAL |
|----------------------|---------------------------------------|------------------|--------|
| | (\$) | (\$) (1) | (\$) |
| Eugen Beckert | 24,500 | - | 24,500 |
| Shahid Javed Burki | 26,750 | - | 26,750 |
| Mark Caton | 8,000 | - | 8,000 |
| Alexander Shakow (2) | 1,333 | - | 1,333 |
| Jim Moody (3) | 11,250 | - | 11,250 |
| Derek Soper (4) | 14,667 | - | 14,667 |

- (1) There were no options awarded during fiscal year ended June 30, 2007
- (2) Mr. Shakow joined the board upon his election by the Board of Directors on June 4, 2007.
- (3) Mr. Moody resigned from our Board of Directors effective December 31, 2007.
- (4) Mr. Soper did not stand for re-election to our Board of Directors and his term concluded on June 4, 2007.

Director Compensation Policy

Messrs. Ghauri are not paid any fees or other compensation for services as members of our Board of Directors.

The non-employee members of our Board of Directors received as compensation for services as directors as well as reimbursement for documented reasonable expenses incurred in connection with attendance at meetings of our Board of Directors and the committees thereof. The Company paid the following amounts to members of the Board of Directors for the activities shown during the fiscal year ended June 30, 2007

| BOARD ACTIVITY | CASH PAYMENTS |
|---|------------------|
| Annual Cash Retainer | \$ 10,000 |
| Committee Membership | \$ 2,000 |
| Chairperson for Audit Committee | \$ 15,000 |
| Chairperson for Compensation Committee | \$ 12,000 |
| Chairperson for Nominating and Corporate Governance Committee | \$ 9,000 |

Members of our Board of Directors are also eligible to receive stock option grants both upon joining the Board of Directors and on an annual basis in line with recommendations by the Compensation Committee, which grants are non-qualified stock options under our Employee Stock Option Plans. Further, from time to time, the non-employee members of the Board of Directors are eligible to receive stock grants that may be granted if and only if approved by the shareholders of the Company.

Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee are Messrs. Caton (Chairman), Mr. Beckert, Mr. Burki and Mr. Shakow. During the fiscal year ended June 30, 2007, the Chairman of the Compensation Committee was Mr. Beckert. From June 30, 2006, the Compensation Committee consisted of Mr. Beckert, Mr. Burki, Mr. Moody and Mr. Soper. Mr. Moody resigned effective December 31, 2007. Mr. Moody was replaced on the committee by Mr. Caton. Mr. Soper did not stand for reelection to the board and accordingly, his committee membership concluded on June 4, 2007. There were no other members of the committee during the fiscal year ended June 30, 2007. All current members of the Compensation Committee are "independent directors" as defined under the Nasdaq Marketplace Rules. None of these individuals were at any time during the fiscal year ended June 30, 2007, or at any other time, an officer or employee of the Company.

No executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

Employee Stock Option Plans

The 2001 plan authorizes the issuance of up to 2,000,000 options to purchase common stock of which 2,000,000 have been granted. The grant prices range between \$.75 and \$2.50.

The 2002 plan authorizes the issuance of up to 2,000,000 options to purchase common stock of which 2,000,000 options have been granted. The grant prices range between \$.75 and \$5.00.

In March 2004, our shareholders approved the 2003 stock option plan. This plan authorizes up to 2,000,000 options to purchase common stock of which 1,189,606 have been granted. The grant prices range between \$1.00 and \$5.00.

In March 2005, our shareholders approved the 2004 stock option plan. This plan authorizes up to 5,000,000 options to purchase common stock of which 4,998,246 have been granted. The grant prices range between \$1.50 and \$3.00.

In April 2006, our shareholders approved the 2005 stock option plan. This plan authorizes up to 5,000,000 options to purchase common stock of which 1,780,000 have been granted. The grant prices range between \$1.70 and \$2.55.

ITEM 11- SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock, its only class of outstanding voting securities as of September 13, 2007, by (i) each person who is known to the Company to own beneficially more than 5% of the outstanding common Stock with the address of each such person, (ii) each of the Company's present directors and officers, and (iii) all officers and directors as a group:

| Name and Address | Number of Shares(1)(2) | Percentage Beneficially owned(4) |
|---|---------------------------|--|
| Najeeb Ghauri (3) | 2,412,650 | 11.28% |
| Naeem Ghauri (3) | 2,261,367 | 10.58% |
| Salim Ghauri (3) | 2,377,416 | 11.12% |
| Eugen Beckert (3) | 223,900 | * |
| Shahid Javed Burki (3) | 204,000 | * |
| Mark Caton (3) | 6,000 | * |
| Alexander Shakow (3) | 0 | * |
| Patti McGlasson (3) | 140,000 | * |
| Tina Gilger (3) | 86,731 | * |
| The Tail Wind Fund Ltd.(5)(6) | 2,116,117 | 9.9% |
| All officers and directors as a group (nine persons) | 7,572,064 | 35.42% |

* Less than one percent

(1) Except as otherwise indicated, the Company believes that the beneficial owners of the common stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities.

(2) Beneficial ownership is determined in accordance with the rules of the Commission and generally includes voting or investment power with respect to securities. Shares of common stock relating to options currently exercisable or exercisable within 60 days of September 19, 2007 are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them. Includes shares issuable upon exercise of options exercisable within 60 days, as follows: Mr. Najeeb Ghauri, 1,774,227; Mr. Naeem Ghauri, 1,784,227; Mr. Salim Ghauri, 1,774,227; Mr. Eugen Beckert, 135,000; Mr. Shahid Burki, 150,000; Ms. Tina Gilger, 75,000; and Ms. Patti McGlasson, 115,000.

(3) Address c/o NetSol Technologies, Inc. at 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302.

(4) Shares issued and outstanding as of September 13, 2007 were 21,374,922.

(5) Address: The Bank of Nova Scotia Trust Company (Bahamas) Ltd., Windermere House, 404 East Bay Street, P.O. Box SS-5539, Nassau, Bahamas. Tail Wind Advisory & Management Ltd., a UK corporation authorized and regulated by the Financial Services Authority of Great Britain ("TWAM"), is the investment manager for The Tail Wind Fund Ltd., and David Crook is the CEO and controlling shareholder of TWAM. Each of TWAM and David Crook expressly disclaims any equitable or beneficial ownership of the shares being referred to hereunder and held by The Tail Wind Fund Ltd.

(6) Subject to the Ownership Limitation (defined below), The Tail Wind Fund Ltd. ("Tail Wind") would own a total of 4,281,411 shares of Common Stock, including: 2,141,515 shares of Common Stock issuable upon conversion of shares of preferred stock issued to Tail Wind ("the Preferred Stock"); 833,334 shares of Common Stock issuable upon exercise of Warrants issued to Tail Wind on such date ("Warrants"); 804,795 shares of common stock issued as part of a private placement in June 2007; warrants to acquire 303,030 shares of Common Stock issued as part of the June 2007 private placement; 83,306 issued as dividend payments on the Preferred Stock; and 115,431 as interest on the Note issued in June 2006 and converted into preferred stock in October 2006. The private placement was also subject to the Ownership Limitation. In accordance with Rule 13d-4 under the Securities Exchange Act of 1934, as amended, because the number of shares of Common Stock into which the Reporting Person's Notes and Warrants are convertible and exercisable is limited, pursuant to the terms of such instruments, to that number of shares of Common Stock which would result in the Reporting Person having beneficial ownership of 9.9% of the total issued and outstanding shares of Common Stock (the "Ownership Limitation"), Tail Wind Fund Ltd. disclaims beneficial ownership of any and all shares of Common Stock that would cause the Reporting Person's beneficial ownership to exceed the Ownership Limitation. In accordance with the Ownership Limitation, Tail Wind, based upon 21,374,922 shares of common stock outstanding, beneficially owns 4,281,411 shares of Common Stock and disclaims beneficial ownership of 1,966,557 shares of Common Stock.

ITEM 12-CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In July 2007, the board approved compensation for service on the Audit, Compensation and Nominating and Corporate Governance Committees. This compensation is discussed in the sections entitled "Compensation of Directors" beginning on page 32.

In July 2007, the board approved compensation for service on the board of directors, the Audit, Compensation and Nominating and Corporate Governance Committees. This compensation is discussed in the sections entitled "Compensation of Directors" beginning on page 43.

PART IV

ITEM 13 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 Articles of Incorporation of Mirage Holdings, Inc., a Nevada corporation, dated March 18, 1997, incorporated by reference as Exhibit 3.1 to NetSol's Registration Statement No. 333-28861 filed on Form SB-2 filed June 10, 1997.*
- 3.2 Amendment to Articles of Incorporation dated May 21, 1999, incorporated by reference as Exhibit 3.2 to NetSol's Annual Report for the fiscal year ended June 30, 1999 on Form 10K-SB filed September 28, 1999.*
- 3.3 Amendment to the Articles of Incorporation of NetSol International, Inc. dated March 20, 2002 incorporated by reference as Exhibit 3.3 to NetSol's Annual Report on Form 10-KSB/A filed on February 2, 2001.*
- 3.4 Amendment to the Articles of Incorporation of NetSol Technologies, Inc. dated August 20, 2003 filed as Exhibit A to NetSol's Definitive Proxy Statement filed June 27, 2003.*
- 3.5 Amendment to the Articles of Incorporation of NetSol Technologies, Inc. dated March 14, 2005 filed as Exhibit 3.0 to NetSol's quarterly report filed on Form 10-QSB for the period ended March 31, 2005.*
- 3.6 Amendment to the Articles of Incorporation dated October 18, 2006(1)
- 3.7 Bylaws of Mirage Holdings, Inc., as amended and restated as of November 28, 2000 incorporated by reference as Exhibit 3.3 to NetSol's Annual Report for the fiscal year ending in June 30, 2000 on Form 10K-SB/A filed on February 2, 2001.*
- 3.8 Amendment to the Bylaws of NetSol Technologies, Inc. dated February 16, 2002 incorporated by reference as Exhibit 3.5 to NetSol's Registration Statement filed on Form S-8 filed on March 27, 2002.*
- 4.1 Form of Common Stock Certificate*
- 4.2 Form of Warrant*.
- 4.3 Form of Series A 7% Cumulative Preferred Stock filed as Annex E to NetSol's Definitive Proxy Statement filed September 18, 2006*.
- 10.1 Lease Agreement for Calabasas executive offices dated December 3, 2003 incorporated by reference as Exhibit 99.1 to NetSol's Current Report filed on Form 8-K filed on December 24, 2003.*
- 10.2 Company Stock Option Plan dated May 18, 1999 incorporated by reference as Exhibit 10.2 to the Company's Annual Report for the Fiscal Year Ended June 30, 1999 on Form 10K-SB filed September 28, 1999.*
- 10.3 Company Stock Option Plan dated April 1, 1997 incorporated by reference as Exhibit 10.5 to NetSol's Registration Statement No. 333-28861 on Form SB-2 filed June 10, 1997*
- 10.4 Company 2003 Incentive and Nonstatutory incorporated by reference as Exhibit 99.1 to NetSol's Definitive Proxy Statement filed February 6, 2004.*
- 10.5 Company 2001 Stock Options Plan dated March 27, 2002 incorporated by reference as Exhibit 5.1 to NetSol's Registration Statement on Form S-8 filed on March 27, 2002.*
- 10.6 Frame Agreement by and between DaimlerChrysler Services AG and NetSol Technologies dated June 4, 2004 incorporated by reference as Exhibit 10.13 to NetSol's Annual Report for the year ended June 30, 2005 on Form 10-KSB filed on September 15, 2005.*
- 10.7 Share Purchase Agreement dated as of January 19, 2005 by and between the Company and the shareholders of CQ Systems Ltd. incorporated by reference as Exhibit 2.1 to NetSol's Current Report filed on form 8-K on January 25, 2005.*
- 10.8 Stock Purchase Agreement dated May 6, 2006 by and between the Company, McCue Systems, Inc. and the shareholders of McCue Systems, Inc. incorporated by reference as Exhibit 2.1 to NetSol's Current Report filed on form 8-K on May 8, 2006.*
- 10.9 Employment Agreement by and between NetSol Technologies, Inc. and Patti L. W. McGlasson dated May 1, 2006 incorporated by reference as Exhibit 10.20 to NetSol's Annual Report on form 10-KSB dated September 18, 2006*.

- 10.10 Employment Agreement by and between NetSol Technologies, Inc. and John McCue dated June 30, 2006 incorporated by reference as Exhibit 10.21 to NetSol's Annual Report on form 10-KSB dated September 18, 2006*
- 10.11. Employment Agreement by and between the Company and Najeeb Ghauri dated January 1, 2007(1)
- 10.12 Employment Agreement by and between the Company and Nacem Ghauri dated January 1, 2007(1).
- 10.13 Employment Agreement by and between the Company and Salim Ghauri dated January 1, 2007(1).
- 10.14 Employment Agreement by and between the Company and Tina Gilger dated August 1, 2007(1).
- 10.15 Lease Agreement by and between McCue Systems, Inc. and Sea Breeze 1 Venture dated April 29, 2003*.
- 10.16 Amendment to Lease Agreement by and between McCue Systems, Inc. and Sea Breeze 1 Venture dated June 25, 2007(1).
- 10.17 Lease Agreement by and between NetSol Pvt Limited and Civic Centres Company (PVT) Limited dated May 28, 2001 incorporated by this reference as Exhi bit 10.23 to NetSol's Annual Report on form 10-KSB dated September 18, 2006.*.

- 10.18 Lease Agreement by and between NetSol Pvt Limited and Mrs.Rameeza Zobairi dated December 5, 2005 incorporated by this reference as Exhibit 10.24 to NetSol's Annual Report on form 10-KSB dated September 18, 2006.*.
- 10.19 Lease Agreement by and between NetSol Pvt Limited and Mr. Nisar Ahmed dated May 4, 2006 incorporated by this reference as Exhibit 10.25 to NetSol's Annual Report on form 10-KSB dated September 18, 2006.*
- 10.20 Lease Agreement by and between NetSol Technologies, Ltd. and Argyll Business Centres Limited dated April 28, 2006 incorporated by this reference as Exhibit 10. 26 to NetSol's Annual Report on form 10-KSB dated September 18, 2006.*
- 10.21 Tenancy Agreement by and between NetSol Technologies, Ltd. and Beijing Lucky Goldstar Building Development Co. Ltd. dated June 26, 2007.(1)
- 10.22 Company 2005 Stock Option Plan incorporated by reference as Exhibit 99.1 to NetSol's Definitive Proxy Statement filed on March 3, 2006.*
- 10.23 Company 2004 Stock Option Plan incorporated by reference as Exhibit 99.1 to NetSol's Definitive Proxy Statement filed on February 7, 2005.*
- 10.24 Working area sublease by and between NetSol Technologies, Ltd. and Toyota Leasing (Thailand) Co. Ltd., dated June 21, 2007.(1)
- 14.1 Amended and Restated Code of Ethics (1)
- 21.1 A list of all subsidiaries of the Company(1)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO)(1)
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO)(1)
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)(1)
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002 (CFO)(1)

*Previously Filed

(1) Filed Herewith

(b) Reports on Form 8-K

- 1) On April 30, 2007, the Company filed a current report including its press release dated April 30, 2007 which announced the results of operations and financial conditions for its Pakistani subsidiary, NetSol Technologies, Ltd. for the quarter ended March 31, 2007.
- 2) On May 8, 2007, the Company filed a current report including its press release dated May 8, 2007 and Financial Results Presentation dated May 8, 2007 which announced the results of operations and financial conditions for the quarter ended March 31, 2007.
- 3) On June 7, 2007 the Company filed a current report announcing the decision of Derek Soper not to stand for reelection and the election, at the Company's annual shareholders' meeting, of the current board of directors.

Item 14 Principal Accountant Fees and Services

Audit Fees

Kabani & Co. audited the Company's financial statements for the fiscal years ended June 30, 2007 and June 30, 2006. The aggregate fees billed by Kabani & Co. for the annual audit and review of financial statements included in the Company's Form 10-KSB or services that are normally provided by Kabani & Company that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the year ended June 30, 2007 was \$105,000, and for the year ended June 30, 2006 was \$135,500.

Audit Related Fees

The aggregate fees billed by Kabani & Co. during fiscal 2007 including assurance and related audit services not covered in the preceding paragraph was \$40,000. These "Audit Related Fees" were primarily for services in connection with the review of quarterly financial statements and the Company's filing of a Registration Statement and amendments thereto on Form S-3. The aggregate fees billed by Kabani & Company during fiscal 2006 including assurance and related audit services not covered in the preceding paragraph was \$31,500. These "Audit Related Fees" were primarily for services in connection with the review of quarterly financial statements and the Company's filing of a Registration Statement on Form S-8.

Tax Fees

Tax fees for fiscal year 2007 were \$12,500 and consisted of the preparation of the Company's federal and state tax returns for the fiscal years 2006. Tax fees for fiscal year 2006 were \$21,500 and consisted of the preparation of the Company's federal and state tax returns for the fiscal years 2004 and 2005.

All Other Fees

There were no other fees billed by Kabani & Co. or services rendered to NetSol during the fiscal years ended June 30, 2007 and 2006, other than as described above.

Pre-Approval Procedures

The Audit Committee and the Board of Directors are responsible for the engagement of the independent auditors and for approving, in advance, all auditing services and permitted non-audit services to be provided by the independent auditors. The Audit Committee maintains a policy for the engagement of the independent auditors that is intended to maintain the independent auditor's independence from NetSol. In adopting the policy, the Audit Committee considered the various services that the independent auditors have historically performed or may be needed to perform in the future. The policy, which is to be reviewed and re-adopted at least annually by the Audit Committee:

- (i) Approves the performance by the independent auditors of certain types of service (principally audit-related and tax), subject to restrictions in some cases, based on the Committee's determination that this would not be likely to impair the independent auditors' independence from NetSol;
- (ii) Requires that management obtain the specific prior approval of the Audit Committee for each engagement of the independent auditors to perform other types of permitted services; and,
- (iii) Prohibits the performance by the independent auditors of certain types of services due to the likelihood that their independence would be impaired.

Any approval required under the policy must be given by the Audit Committee, by the Chairman of the Committee in office at the time, or by any other Committee member to whom the Committee has delegated that authority. The Audit Committee does not delegate its responsibilities to approve services performed by the independent auditors to any member of management.

The standard applied by the Audit Committee in determining whether to grant approval of an engagement of the independent auditors is whether the services to be performed, the compensation to be paid therefore and other related factors are consistent with the independent auditors' independence under guidelines of the Securities and Exchange Commission and applicable professional standards. Relevant considerations include, but are not limited to, whether the work product is likely to be subject to, or implicated in, audit procedures during the audit of NetSol's financial statements; whether the independent auditors would be functioning in the role of management or in an advocacy role; whether performance of the service by the independent auditors would enhance NetSol's ability to manage or control risk or improve audit quality; whether performance of the service by the independent auditors would increase efficiency because of their familiarity with NetSol's business, personnel, culture, systems, risk profile and other factors; and whether the amount of fees involved, or the proportion of the total fees payable to the independent auditors in the period that is for tax and other non-audit services, would tend to reduce the independent auditors' ability to exercise independent judgment in performing the audit.

SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NetSol Technologies, Inc.

Date: September 20, 2007

BY:/S/ NAJEEB GHAURI

Najeeb Ghauri
Chief Executive Officer

Date: September 20, 2007

BY:/S/ Tina Gilger

Tina Gilger
Chief Financial Officer

In accordance with the Exchange Act, this amended report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: September 20, 2007

BY: /S/ NAJEEB U. GHAURI

Najeeb U. Ghauri
Chief Executive Officer
Director, Chairman

Date: September 20, 2007

BY: /S/ SALIM GHAURI

Salim Ghauri
President, APAC
Director

Date: September 20, 2007

BY: /S/ EUGEN BECKERT

Eugen Beckert
Director

Date: September 20, 2007

BY: /S/ SHAHID JAVED BURKI

Shahid Javed Burki
Director

Date: September 20, 2007

BY: /S/ MARK CATON

Mark Caton
Director

Date: September 20, 2007

BY: /S/ ALEXANDER SHAKOW

Alexander Shakow
Director

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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| Consolidated Balance Sheet as of June 30, 2007 | F-3 |
| Consolidated Statements of Operations for the Years Ended June 30, 2007 and 2006 | F-4 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
NetSol Technologies, Inc. and subsidiaries
Calabasas, California

We have audited the accompanying consolidated balance sheet of NetSol Technologies, Inc. and subsidiaries as of June 30, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NetSol Technologies, Inc. and subsidiaries as of June 30, 2007 and the results of its consolidated operations and its cash flows for the years ended June 30, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America.

/s/ Kabani & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Los Angeles, California
September 10, 2007

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
JUNE 30, 2007

ASSETS

Current assets:

| | | |
|--|--------------|-------------------|
| Cash and cash equivalents | \$ 4,010,164 | |
| Accounts receivable, net of allowance for doubtful accounts of \$106,090 | 7,937,686 | |
| Revenues in excess of billings | 8,501,769 | |
| Other current assets | 2,278,749 | |
| Total current assets | | 22,728,368 |

Property and equipment, net of accumulated depreciation 7,583,752

Other assets, long-term 1,308,267

Intangibles:

| | | |
|--|-----------|-------------------|
| Product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, net | 7,772,848 | |
| Customer lists, net | 2,427,405 | |
| Goodwill | 7,708,501 | |
| Total intangibles | | 17,908,754 |

Total assets **\$ 49,529,141**

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|---|--------------|-------------------|
| Accounts payable and accrued expenses | \$ 3,590,652 | |
| Current portion of notes and obligations under capitalized leases | 887,098 | |
| Other payables - acquisitions | 962,406 | |
| Unearned revenues | 2,815,660 | |
| Due to officers | 356,422 | |
| Dividend to preferred stockholders payable | 77,640 | |
| Loans payable, bank | 3,097,928 | |
| Total current liabilities | | 11,787,806 |

Obligations under capitalized leases, less current maturities 339,759

Total liabilities 12,127,565

Minority interest 3,552,635

Commitments and contingencies

Stockholders' equity:

| | | |
|--|--------------|----------------------|
| Preferred stock, 5,000,000 shares authorized; 4,130 issued and outstanding | 4,130,000 | |
| Common stock, \$.001 par value; 45,000,000 shares authorized; 20,556,553 issued and outstanding | 20,556 | |
| Additional paid-in-capital | 66,988,147 | |
| Treasury stock | (10,194) | |
| Accumulated deficit | (37,132,343) | |
| Stock subscription receivable | (1,001,407) | |
| Common stock to be issued | 1,329,612 | |
| Other comprehensive loss | (475,430) | |
| Total stockholders' equity | | 33,848,941 |
| Total liabilities and stockholders' equity | | \$ 49,529,141 |

See accompanying notes to these consolidated financial statements.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended | |
|--|---------------------|----------------|
| | June 30, 2007 | June 30, 2006 |
| Revenues: | | |
| Licence fees | \$ 9,788,266 | \$ 5,192,371 |
| Maintenance fees | 5,441,339 | 2,444,075 |
| Services | 14,052,481 | 11,053,966 |
| Total revenues | 29,282,086 | 18,690,412 |
| Cost of revenues: | | |
| Salaries and consultants | 8,812,934 | 6,117,886 |
| Travel and entertainment | 1,529,796 | 756,880 |
| Communication | 161,128 | 129,741 |
| Depreciation and amortization | 652,669 | 733,370 |
| Other | 2,502,452 | 1,282,641 |
| Total cost of sales | 13,658,979 | 9,020,518 |
| Gross profit | 15,623,107 | 9,669,894 |
| Operating expenses: | | |
| Selling and marketing | 2,356,831 | 1,789,349 |
| Depreciation and amortization | 1,988,603 | 2,286,678 |
| Salaries and wages | 4,294,368 | 2,557,648 |
| Professional services, including non-cash compensation | 1,067,702 | 607,706 |
| Bad debt expense | 189,873 | 30,218 |
| General and administrative | 3,078,862 | 2,657,642 |
| Total operating expenses | 12,976,239 | 9,929,241 |
| Income (loss) from operations | 2,646,868 | (259,347) |
| Other income and (expenses) | | |
| Loss on sale of assets | (2,977) | (35,090) |
| Beneficial conversion feature | (2,208,334) | (14,389) |
| Amortization of debt discount and capitalized cost of debt | (2,803,691) | - |
| Liquidation damages | (180,890) | - |
| Fair market value of warrants issued | (68,411) | (21,505) |
| Gain on forgiveness of debt | - | 8,294 |
| Interest expense | (617,818) | (442,887) |
| Interest income | 339,164 | 280,276 |
| Other income and (expenses) | 114,423 | 191,736 |
| Total other expenses | (5,428,534) | (33,565) |
| Net loss before taxes and minority interest in subsidiary | (2,781,666) | (292,912) |
| Minority interest in earnings of subsidiary | (1,935,589) | (954,120) |
| Income taxes | (160,306) | (106,021) |
| Net loss | (4,877,561) | (1,353,053) |
| Dividend required for preferred stockholders | (237,326) | - |
| Bonus stock dividend (minority holders portion) | (345,415) | - |
| Net loss applicable to common shareholders | (5,460,302) | (1,353,053) |
| Other comprehensive (loss) gain: | | |
| Translation adjustment | (55,770) | 101,031 |
| Comprehensive loss | \$ (5,516,072) | \$ (1,252,022) |
| Net loss per share: | | |
| Basic | \$ (0.27) | \$ (0.09) |
| Diluted | \$ (0.27) | \$ (0.09) |
| Weighted average number of shares outstanding | | |
| Basic | 18,189,590 | 14,567,007 |
| Diluted | 18,189,590 | 14,567,007 |

See accompanying notes to these consolidated financial statements.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

| | Common Stock | | Additional Paid-in Capital | Treasury Shares | Stock Sub- scriptions Receivable | Shares to be Issued | Capitalized Finance Costs of Debt | Other Compre- hensive Income/ (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|--|-------------------|------------------|----------------------------------|--------------------|---|------------------------|--|--|------------------------|----------------------------------|
| | Shares | Amount | | | | | | | | |
| | | | | | | | | | | |
| Balance at June 30, 2005 | 13,830,884 | \$ 13,831 | \$ 46,610,746 | \$ (27,197) | \$ (616,650) | \$ 108,500 | \$ - | \$ (520,691) | \$ (30,318,988) | \$ 15,249,551 |
| Issuance of common stock for cash | 933,334 | 933 | 1,399,067 | | | | | | | 1,400,000 |
| Issuance of common stock for services | 67,255 | 67 | 111,548 | | | 7,500 | | | | 119,115 |
| Exercise of common stock options | 285,383 | 285 | 346,697 | | 317,400 | 5,000 | | | | 669,382 |
| Issuance of common stock in exchange for notes payable & interest | 36,607 | 37 | 70,981 | | | | | | | 71,018 |
| Issuance of common stock for conversion of convertible debentures | 80,646 | 81 | 149,919 | | | | | | | 150,000 |
| Issuance of common stock in exchange for purchase of CQ Systems | 884,535 | 885 | 1,847,795 | | | | | | | 1,848,680 |
| Issuance of common stock in exchange for purchase of McCue Systems | - | - | - | | | 1,628,979 | | | | 1,628,979 |
| Issuance of common stock in exchange for accrued expenses | 42,231 | 42 | 64,036 | | | | | | | 64,078 |
| Issuance of treasury shares for services | | | | 17,003 | | | | | | 17,003 |
| Capital contribution from issuance of subsidiary stock on foreign exchange | - | - | 4,031,002 | | | | | | | 4,031,002 |
| Fair market value of warrants and options issued | - | - | 2,474,751 | | | | | | | 2,474,751 |
| Capitalized finance costs of debt | - | - | - | | | | (326,599) | | | (326,599) |
| Foreign currency translation adjustments | - | - | - | | | | | 101,031 | | 101,031 |
| Net loss for the year | - | - | - | | | | | | (1,353,053) | (1,353,053) |
| Balance at June 30, 2006 | <u>16,160,875</u> | <u>\$ 16,161</u> | <u>\$ 57,106,542</u> | <u>\$ (10,194)</u> | <u>\$ (299,250)</u> | <u>\$ 1,749,979</u> | <u>\$ (326,599)</u> | <u>\$ (419,660)</u> | <u>\$ (31,672,041)</u> | <u>\$ 26,144,938</u> |

Continued

See accompanying notes to these consolidated financial statements.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - Continued
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Treasury Shares | Stock Sub- scriptions Receivable | Shares to be Issued | Capitalized Finance Costs of Debt | Other Compre- hensive Income/ (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|-----------------|-------------|--------------|-----------|----------------------------------|--------------------|---|------------------------|--|--|------------------------|----------------------------------|
| | Shares | Amount | Shares | Amount | | | | | | | | |
| | | | | | | | | | | | | |
| Balance at June 30, 2006 | - | \$ - | 16,160,875 | \$ 16,161 | \$ 57,106,542 | \$(10,194) | \$ (299,250) | \$ 1,749,979 | \$ (326,599) | \$(419,660) | \$(31,672,041) | \$ 26,144,938 |
| Preferred Stock issued for conversion of convertible note | 5,500 | 5,500,000 | | | | | | | | | | 5,500,000 |
| Exercise of common stock options | | | 1,525,030 | 1,525 | 2,548,198 | | (517,250) | (5,000) | | | | 2,027,473 |
| Common stock issued for: | | | | | | | | | | | | |
| Cash | | | 103,333 | 104 | 108,396 | | (219,907) | 1,141,500 | | | | 1,030,093 |
| Services | | | 261,984 | 261 | 390,216 | | 35,000 | 7,500 | | | | 432,977 |
| Conversion of preferred stock | (1,370) | (1,370,000) | 830,302 | 830 | 1,369,170 | | | | | | | - |
| Payment of dividend on preferred stock | | | 105,589 | 105 | 159,579 | | | | | | | 159,684 |
| Common stock issued in exchange for: | | | | | | | | | | | | |
| Notes payable and related interest | | | 230,863 | 231 | 339,137 | | | | | | | 339,368 |
| Purchase of McCue Systems | | | 1,329,470 | 1,330 | 2,274,677 | | (1,564,367) | | | | | 711,640 |
| Beneficial conversion feature | | | | | 2,208,334 | | | | | | | 2,208,334 |
| Repricing of warrants | | | | | 11,667 | | | | | | | 11,667 |
| Bonus shares issued by subsidiary | | | | | 345,415 | | | | | | | 345,415 |
| Adjustment to stockholder list | | | 9,107 | 9 | (9) | | | | | | | - |
| Fair market value of warrants and options issued | | | - | - | 136,571 | | | | | | | 136,571 |
| Finance costs of capital raised | | | - | - | (9,746) | | | | 326,599 | | | 316,853 |
| Foreign currency translation adjusts | | | - | - | - | | | | | (55,770) | | (55,770) |
| Net loss for the year | | | - | - | - | | | | | | (5,460,302) | (5,460,302) |

| | | | | | | | | | | | | | |
|--------------------------------|--------------|---------------------|-------------------|-----------------|---------------------|-------------------|----------------------|---------------------|-----------|----------|--------------------|-----------------------|----------------------|
| Balance at June 30, 2007 | <u>4,130</u> | <u>\$ 4,130,000</u> | <u>20,556,553</u> | <u>\$20,556</u> | <u>\$66,988,147</u> | <u>\$(10,194)</u> | <u>\$(1,001,407)</u> | <u>\$ 1,329,612</u> | <u>\$</u> | <u>-</u> | <u>\$(475,430)</u> | <u>\$(37,132,343)</u> | <u>\$ 33,848,941</u> |
|--------------------------------|--------------|---------------------|-------------------|-----------------|---------------------|-------------------|----------------------|---------------------|-----------|----------|--------------------|-----------------------|----------------------|

See accompanying notes to these consolidated financial statements.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Years | |
|--|---------------------|---------------------|
| | Ended June 30, | |
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net loss from continuing operations | \$ (5,460,302) | \$ (1,353,053) |
| Adjustments to reconcile net loss to net cash used in by operating activities: | | |
| Depreciation and amortization | 2,641,272 | 3,020,048 |
| Provision for uncollectible accounts | 189,873 | 30,218 |
| Gain on forgiveness of debt | - | (8,294) |
| Loss on sale of assets | 2,977 | 35,090 |
| Minority interest in subsidiary | 1,935,589 | 954,120 |
| Stock issued for services | 88,099 | 200,194 |
| Stock issued for convertible note payable interest | 311,868 | - |
| Stock issued for dividends payable to preferred stockholder | 159,684 | - |
| Bonus stock dividend issued by subsidiary | 345,415 | - |
| Fair market value of warrants and stock options granted | 136,571 | 25,618 |
| Beneficial conversion feature | 2,208,334 | 14,389 |
| Amortization of capitalized cost of debt | 2,815,358 | 100,172 |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (2,858,608) | (1,351,660) |
| Increase in other current assets | (3,199,796) | (3,789,179) |
| Increase in accounts payable and accrued expenses | 560,138 | 430,419 |
| Net cash used in operating activities | (123,528) | (1,691,918) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (2,420,470) | (2,709,569) |
| Sales of property and equipment | 366,088 | 301,684 |
| Purchases of certificates of deposit | - | (1,534,371) |
| Proceeds from sale of certificates of deposit | 1,737,481 | - |
| (Payments)/Accruals of acquisition payable | (4,027,753) | 4,086,204 |
| Increase in intangible assets | (3,295,262) | (5,027,968) |
| Cash brought in at acquisition | - | 473,890 |
| Net cash used in investing activities | (7,639,916) | (4,410,130) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock | 1,030,093 | 1,400,000 |
| Proceeds from the exercise of stock options and warrants | 1,008,250 | 669,382 |
| Capital contributed from sale of subsidiary stock | - | 4,031,001 |
| Dividend to preferred shareholders payable | 77,640 | - |
| Reduction of restricted cash | 4,533,555 | (4,533,555) |
| Proceeds from convertible notes payable | - | 5,500,000 |
| Proceeds from loans from officers | 165,000 | - |
| Net proceeds on loans and capital lease obligations | 2,359,017 | 82,650 |
| Net cash provided by financing activities | 9,173,555 | 7,149,478 |
| Effect of exchange rate changes in cash | 106,285 | 74,611 |
| Net increase in cash and cash equivalents | 1,516,396 | 1,122,041 |
| Cash and cash equivalents, beginning of year | 2,493,768 | 1,371,727 |
| Cash and cash equivalents, end of year | \$ 4,010,164 | \$ 2,493,768 |

See accompanying notes to these consolidated financial statements.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Continued

| | For the Years | |
|--|----------------|--------------|
| | Ended June 30, | |
| | <u>2007</u> | <u>2006</u> |
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash paid during the period for: | | |
| Interest | \$ 232,783 | \$ 244,390 |
| Taxes | \$ 70,184 | \$ 45,511 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Common stock issued for payment of note payable and related interest | \$ 27,500 | \$ 71,018 |
| Common stock issued for accrued expenses and accounts payable | \$ 40,750 | \$ 7,044 |
| Common stock issued to consultants for R&D services | \$ 269,126 | \$ - |
| Common stock issued for acquisition of subsidiary | \$ 2,295,649 | \$ 1,848,680 |
| Common stock to be issued for acquisition of subsidiary | \$ - | \$ 1,628,979 |
| Common stock issued for conversion of debentures | \$ 150,000 | \$ 150,000 |
| Warrants issued to convertible note holders | \$ - | \$ 2,108,335 |
| Warrants issued for cost of debt | \$ - | \$ 340,799 |
| Stock issued for the conversion of Preferred Stock | \$ 1,370,000 | \$ - |
| Preferred stock issued for conversion of convertible note payable | \$ 5,500,000 | \$ - |

See accompanying notes to these consolidated financial statements.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS AND CONTINUED OPERATIONS

NetSol Technologies, Inc. and subsidiaries (the "Company"), formerly known as NetSol International, Inc. and Mirage Holdings, Inc., was incorporated under the laws of the State of Nevada on March 18, 1997. During November of 1998, Mirage Collections, Inc., a wholly owned and non-operating subsidiary, was dissolved.

In March 2000, the Company formed NetSol (PVT), Limited as a wholly owned subsidiary. The subsidiary was merged into the Company's subsidiary, NetSol Technologies, Limited in April 2006.

Business Combinations Accounted for Under the Purchase Method:

Network Solutions PVT, Ltd. and NetSol UK, Limited

On September 15, 1998 and April 17, 1999, the Company purchased from related parties, 51% and 49%, respectively, of the outstanding common stock of Network Solutions PVT, Ltd., a Pakistani Company, and 43% and 57% of the outstanding common stock of NetSol UK, Limited, a United Kingdom Company, for the issuance of 938,000 restricted common shares of the Company and cash payments of \$775,000, for an aggregate purchase price of approximately \$12.9 million. These acquisitions were accounted for using the purchase method of accounting, and accordingly, the purchase price was allocated to the assets purchased and liabilities assumed based upon their estimated fair values on the date of acquisition, which approximated \$300,000. Included in the accompanying consolidated financial statements are other assets acquired at fair market value consisting of product licenses, product renewals, product enhancements, copyrights, trademarks, trade names and customer lists. At the date of acquisition, the management of the Company allocated approximately \$6.3 million to these assets, based on independent valuation reports prepared for the Company. The excess of the purchase prices over the estimated fair values of the net assets acquired, was recorded as goodwill, and was being amortized by using the straight-line method from the date of each purchase. Effective April 1, 2001, the management determined that the remaining useful life of all its acquired intangible assets to be approximately five years, and accordingly, accelerated the amortization of these intangibles. During the fiscal year ended June 30, 2006 these amounts were fully amortized.

Business Combinations Accounted for Under the Purchase Method:

CQ Systems

On January 19, 2005, the Company entered into an agreement to acquire 100% of the issued and outstanding shares of common stock of CQ Systems Ltd., a company organized under the laws of England and Wales. The acquisition closed on February 22, 2005. The initial purchase price was £3,576,335 or \$6,730,382, of which one-half was due at closing payable in cash and stock and the other half was due when the audited March 31, 2006 financial statements were completed. On the closing date, \$1.7 million was paid and 681,965 shares were issued to the shareholders of CQ, valued at \$1,676,795 at an average share price of \$2.46 was recorded. In addition, the agreement called for the accumulated retained earnings amounting to £423,711 or \$801,915 of CQ Systems as of the closing date to be paid to the shareholders in cash and stock. In April 2005, the additional cash of £350,000 or \$662,410 was paid and 77,503 shares of the Company's common stock valued at \$139,505 were issued. The total amount paid at closing was \$4,178,710. In June 2006, the final installment for the purchase of CQ Systems was determined based on the audited revenues for the twelve month period ending March 31, 2006. Based on the earn-out formula in the purchase agreement, £2,087,071 or \$3,785,210 was due in cash and stock. On June 12, 2006, 884,535 shares of the Company's restricted common stock were issued to the shareholders of CQ Systems. In July 2006, the cash portion of \$1,936,530 plus \$31,810 of interest was paid to the shareholders.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

McCue Systems

On May 6, 2006, the Company entered into an agreement to acquire 100% of the issued and outstanding stock of McCue Systems, Inc. ("McCue"), a California corporation. The acquisition closed on June 30, 2006. The initial purchase price was estimated at \$8,471,455 of which one-half was due at closing payable in cash and stock. The other half is due in two installments over the next two years based on the revenue after the audited December 31, 2006 and 2007 financial statements are completed. On the closing date, \$2,117,864 payable and 958,213 shares to be issued valued at \$1,628,979 were recorded. The cash was paid on July 5, 2006 and the shares were also issued in July 2006. The total amount paid at closing was \$3,746,843. In June 2007, the second installment due was determined based on the audited revenues for the twelve month period ending December 31, 2006. Based on the earn-out formula in the purchase agreement, \$1,807,910 was due in cash and stock. On June 27, 2006 397,700 shares of the Company's restricted common stock were issued to the shareholders of McCue Systems. In July and August 2006, \$450,000 and \$429,007, respectively, of the cash portion was paid to the shareholders.

Business Combinations Accounted for Under the Pooling of Interest Method:

Abraxas Australia Pty, Limited

On January 3, 2000, the Company issued 30,000 Rule 144 restricted common shares in exchange for 100% of the outstanding capital stock of Abraxas Australia Pty, Limited, an Australian Company. This business combination was accounted for using the pooling of interest method of accounting under APB Opinion No. 16.

Formation of Subsidiary:

During the period ended December 31, 2002, the Company formed a subsidiary in the UK, NetSol Technologies Ltd., as a wholly-owned subsidiary of NetSol Technologies, Inc. This entity serves as the main marketing and delivery arm for services and products sold and delivered in the UK and mainland Europe.

Joint Venture:

TiG-Netsol

In January 2005, the Company formed TiG-NetSol (Pvt) Limited ("TiG-Netsol") as a joint venture with a UK based public company TIG Plc., with 50.1% ownership by NetSol Technologies, Inc. and 49.9% ownership by TiG. TiG-NetSol was incorporated in Pakistan on January 12, 2005 under the Companies Ordinance, 1984 as a private company limited by shares. The business of TiG-Netsol is export of computer software and its related services developed in Pakistan.

NetSol Omni

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

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Merger of Subsidiaries

On April 28, 2006, the Companies wholly-owned subsidiary NetSol (PVT), Limited (“PK Private”) merged into NetSol Technologies (PVT), Ltd, both located in Lahore, Pakistan. As the subsidiaries were under common control, the assets and liabilities of PK Private were recorded at historically values at the time of the merger. The consolidated financial statements reflect the income and expenses of PK Private for the fiscal year up to the date of the merger.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, McCue Systems, Inc. (“McCue”), NetSol Technologies Limited (“UK”), NetSol-Abraxas Australia Pty Ltd. (“Abraxas”), NetSol-CQ Limited (“CQ”), and its majority-owned subsidiaries, NetSol Technologies (Pvt), Ltd.(“PK Tech”), NetSol Connect (Pvt), Ltd. (now, NetSol Akhter Pvt. Ltd.) (“Connect”), TIG-NetSol (Pvt) Limited (“TIG”), and NetSol Omni (Private) Limited (“Omni”). All material inter-company accounts have been eliminated in consolidation.

Business Activity:

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

Use of Estimates:

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

Cash and Cash Equivalents:

Equivalents

For purposes of the statement of cash flows, cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations.

Concentration

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Accounts Receivable:

The Company’s customer base consists of a geographically dispersed customer base. The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Reserves are recorded primarily on a specific identification basis.

Revenues in excess of billings:

“Revenues in excess of billings” represent the total of the project to be billed to the customer over the revenues recognized under the percentage of completion method. As the customer is billed under the terms of their contract, the corresponding amount is transferred from this account to “Accounts Receivable.”

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment:

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation is computed using various methods over the estimated useful lives of the assets, ranging from three to seven years.

The Company accounts for the costs of computer software developed or obtained for internal use in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Company capitalizes costs of materials, consultants, and payroll and payroll-related costs for employees incurred in developing internal-use computer software. These costs are included with "Computer equipment and software." Costs incurred during the preliminary project and post-implementation stages are charged to general and administrative expense.

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 after July 1, 2002 is being evaluated in accordance with SFAS No. 142. The SFAS No. 142 is applicable to the financial statements of the Company beginning July 1, 2002.

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 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.

Statement of Cash Flows:

In accordance with Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition:

The Company recognizes its revenue in accordance with the Securities and Exchange Commissions ("SEC") Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104") and The American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9, SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," and Accounting Research Bulletin 45 (ARB 45) "Long-Term Construction Type Contracts." The Company's revenue recognition policy is as follows:

License Revenue: 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. Revenue from the sale of licenses with major customization, modification, and development is recognized on a percentage of completion method, in conformity with ARB 45 and SOP 81-1. Revenue from the implementation of software is recognized on a percentage of completion method, in conformity with Accounting Research Bulletin ("ARB") No. 45 and SOP 81-1. Any revenues from software arrangements with multiple elements are allocated to each element of the arrangement based on the relative fair values using specific objective evidence as defined in the SOPs. An output measure of "Unit of Work Completed" is used to determine the percentage of completion which measures the results achieved at a specific date. Units completed are certified by the Project Manager and EVP IT/ Operations.

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

Fair Value:

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, none of which are held for trading purposes, approximate carrying values of such amounts.

Advertising Costs:

The Company expenses the cost of advertising as incurred. Advertising costs for the years ended June 30, 2007 and 2006 were \$643,081 and \$593,811 respectively.

Net Income/Loss Per Share:

Net income/loss per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings per share." Basic net income/loss 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 weighted average number of shares used to compute basic and diluted loss per share is the same in these consolidated financial statements for the years ended June 30, 2007 and 2006 since the effect of dilutive securities is anti-dilutive.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Comprehensive Income & Foreign Currency Translation:

SFAS 130 requires unrealized gains and losses on the Company's available for sale securities, currency translation adjustments, and minimum pension liability, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income. The accounts of NetSol UK and NetSol - CQ Systems use British Pounds; NetSol Technologies (Pvt) Ltd., NetSol Private, NetSol Connect, TiG-Netsol, and NetSol Omni use Pakistan Rupees; NetSol Abraxas uses the Australian dollar as the functional currencies. NetSol Technologies, Inc., and McCue Systems, Inc., uses U.S. dollars as the functional currencies. 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. During the years ended June 30, 2007 and 2006, comprehensive income included net translation income of \$55,770 and \$101,031, respectively. Other comprehensive loss, as presented on the accompanying consolidated balance sheet in the stockholders' equity section amounted to \$475,430 as of June 30, 2007.

Accounting for Stock-Based Compensation:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, which applies the fair-value method of accounting for stock-based compensation plans. In accordance with this standard, the Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees.

In March 2000, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 44 (Interpretation 44), "Accounting for Certain Transactions Involving Stock Compensation." Interpretation 44 provides criteria for the recognition of compensation expense in certain stock-based compensation arrangements that are accounted for under APB Opinion No. 25, Accounting for Stock-Based Compensation. Interpretation 44 became effective July 1, 2000, with certain provisions that were effective retroactively to December 15, 1998 and January 12, 2000. Interpretation 44 did not have any material impact on the Company's financial statements.

In December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("FAS No. 123R"). FAS No. 123R requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective beginning in the Company's first quarter of fiscal year ended June 30, 2007.

INCOME TAXES

The Company is incorporated in the State of Nevada and registered to do business in the State of California and has operations in primarily three tax jurisdictions - the United Kingdom ("UK"), Pakistan and the United States ("US"). For certain operations in the US, Pakistan and the UK, the Company has incurred net accumulated operating losses for income tax purposes. The Company believes that it is more likely than not that these net accumulated operating losses will not be utilized in the future. Therefore, the Company has provided full valuation allowance for the deferred tax assets arising from the losses at these locations as of June 30, 2007. Accordingly, the Company has no net deferred tax assets.

United States of America

As of June 30, 2007, the Company and its subsidiary in the US had approximately \$29,846,716 in net operating loss carry forwards available to offset future taxable income. Federal net operating losses can generally be carried forward 20 years. The deferred tax assets for the United States entities at June 30, 2007 consists mainly of net operating loss carry forwards and were fully reserved as the management believes it is more likely than not that these assets will not be realized in the future.

The following table sets forth the significant components of the net deferred tax assets for operation in the US as of June 30, 2007 and 2006.

| | 2007 | 2006 |
|---------------------------------|---------------|---------------|
| Net Operating Loss Carryforward | \$ 29,846,716 | \$ 27,091,578 |
| Total Deferred Tax Assets | 11,938,686 | 10,836,631 |
| Less: Valuation Allowance | (11,938,686) | (10,836,631) |
| Net Deferred Tax Asset | \$ - | \$ - |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of the provision for income taxes at the U.S. federal income tax rate to the income taxes reflected in the Statement of Operations:

| | 2007 | 2006 |
|--|------|------|
| Tax expense (credit) at statutory rate - federal | -34% | -34% |
| State tax expense net of federal tax | -6% | -6% |
| Changes in valuation allowance | 40% | 40% |
| Foreign income tax: | | |
| UK | -30% | -30% |
| Pakistan | 35% | 35% |
| Changes in valuation allowance | -2% | 3% |
| Tax expense at actual rate | 3% | 8% |

Pakistan

As of June 30, 2007 the Company's Pakistan subsidiaries had net operating loss carry forwards which can be carried forward for six years to offset future taxable income. The deferred tax assets for the Pakistan subsidiaries at June 30, 2007 consists mainly of net operating loss carry forwards and were fully reserved as the management believes it is more likely than not that these assets will not be realized in the future.

The following table sets forth the significant components of the net deferred tax assets for operation in Pakistan as of June 30, 2007 and 2006.

| | 2007 | 2006 |
|---------------------------------|--------------|--------------|
| Net Operating Loss Carryforward | \$ 1,496,002 | \$ 1,423,264 |
| Total Deferred Tax Assets | 523,601 | 498,142 |
| Less: Valuation Allowance | (523,601) | (498,142) |
| Net Deferred Tax Asset | \$ - | \$ - |

UK

As of June 30, 2007 and 2006, the Company's UK subsidiaries had net operating loss carry forwards which can be carried forward indefinitely to offset future taxable income. The deferred tax assets for the Pakistan subsidiaries at June 30, 2007 consists mainly of net operating loss carry forwards and were fully reserved as the management believes it is more likely than not that these assets will not be realized in the future.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the significant components of the net deferred tax assets for operation in the UK as of June 30, 2007 and 2006.

| | 2007 | 2006 |
|---------------------------------|--------------|-------------|
| Net Operating Loss Carryforward | \$ 1,649,025 | \$ 283,180 |
| Total Deferred Tax Assets | 494,707 | 84,954 |
| Less: Valuation Allowance | (494,707) | (84,954) |
| Net Deferred Tax Asset | <u>\$ -</u> | <u>\$ -</u> |

Aggregate net deferred tax assets

The following table sets forth the significant components of the aggregate net deferred tax assets of the Company as of June 30, 2007 and 2006:

| | 2007 | 2006 |
|---------------------------|--------------|--------------|
| Aggregate: | | |
| Total Deferred Tax Assets | 11,967,580 | 11,249,820 |
| Less: Valuation Allowance | (11,967,580) | (11,249,820) |
| Net Deferred Tax Asset | <u>\$ -</u> | <u>\$ -</u> |

Income tax payable was approximately \$160,306 and \$106,021 for the years ended June 30, 2007 and 2006, respectively.

Derivative Instruments:

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137, is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 requires the Company to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow and foreign currency hedges and establishes respective accounting standards for reporting changes in the fair value of the derivative instruments. After adoption, the Company is required to adjust hedging instruments to fair value in the balance sheet and recognize the offsetting gains or losses as adjustments to be reported in net income or other comprehensive income, as appropriate. The Company has complied with the requirements of SFAS 133, the effect of which was not material to the Company's financial position or results of operations as the Company does not participate in such activities.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of:

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
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For goodwill not identifiable with an impaired asset, the Company establishes benchmarks at the lowest level (entity level) as its method of assessing impairment. In measuring impairment, unidentifiable goodwill is considered impaired if the fair value at the lowest level is less than its carrying amount. The fair value of unidentifiable goodwill is determined by subtracting the fair value of the recognized net assets at the lowest level (excluding goodwill) from the value at the lowest level. The amount of the impairment loss is equal to the difference between the carrying amount of goodwill and the fair value of goodwill. In the event that impairment is recognized, appropriate disclosures are made.

Goodwill of a reporting unit is reviewed for impairment if events or changes in circumstances indicate that the carrying amount of its goodwill or intangible assets may not be recoverable. Impairment of reporting unit goodwill is evaluated based on a comparison of the reporting unit's carrying value to the implied fair value of the reporting unit. Conditions that indicate that an impairment of goodwill exists include a sustained decrease in the market value of the reporting unit or an adverse change in business climate.

Reporting segments:

Statement of financial accounting standards No. 131, Disclosures about segments of an enterprise and related information (SFAS No. 131), which superceded statement of financial accounting standards No. 14, Financial reporting for segments of a business enterprise, establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements regarding products and services, geographic areas and major customers. SFAS No. 131 defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performances. The Company allocates its resources and assesses the performance of its sales activities based upon geographic locations of its subsidiaries (see Note 16).

New Accounting Pronouncements:

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

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

1. A brief description of the provisions of this Statement

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The management is currently evaluating the effect of this pronouncement on the consolidated financial statements.

In July 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48)". FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This statement is effective for fiscal years beginning after December 15, 2006. Management is currently in the process of evaluating the expected effect of FIN 48 on our results of operations and financial position.

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

Reclassifications:

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

NOTE 3 - MAJOR CUSTOMERS

During fiscal year ended June 30, 2007, there were no customers who represented 10% or more of the Company's total revenue.

The Company is a strategic business partner for DaimlerChrysler (which consists of a group of many companies), which accounts for approximately 2% and 11% of revenue for the fiscal years ended June 30, 2007 and 2006 and Toyota Motors (which consists of a group of many companies) accounts for approximately 9% and 12% of revenue for the fiscal year ended June 30, 2007 and 2006. Accounts receivable at June 30, 2007 and 2006 for these companies was \$1,701,666 and \$1,546,642.

NOTE 4 - OTHER CURRENT ASSETS

Other current assets consist of the following as of June 30, 2007:

| | |
|--------------------|---------------------|
| Prepaid Expenses | \$ 776,785 |
| Advance Income Tax | 187,219 |
| Employee Advances | 166,469 |
| Security Deposits | 260,199 |
| Advance Rent | 186,656 |
| Other Receivables | 656,727 |
| Other Assets | 44,694 |
| Total | \$ 2,278,749 |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following at June 30, 2007:

| | |
|--------------------------------|---------------------|
| Office furniture and equipment | \$ 1,216,833 |
| Computer equipment | 6,776,051 |
| Assets under capital leases | 1,321,159 |
| Building | 3,247,352 |
| Construction in process | 274,698 |
| Land | 600,481 |
| Autos | 213,336 |
| Improvements | 419,797 |
| Subtotal | <u>14,069,707</u> |
| Accumulated depreciation | <u>(6,485,955)</u> |
| | <u>\$ 7,583,752</u> |

For the years ended June 30, 2007 and 2006, fixed asset depreciation expense totaled \$1,015,835 and \$1,053,382, respectively. Of these amounts, \$567,145 and \$663,397, respectively, are reflected as part of cost of goods sold.

NOTE 6 - INTANGIBLE ASSETS

Intangible assets consist of the following at June 30, 2007:

| | Product Licenses | Customer Lists | Total |
|----------------------------------|---------------------|---------------------|----------------------|
| Intangible asset - June 30, 2006 | \$ 10,920,327 | \$ 5,438,594 | \$ 16,358,921 |
| Additions | 3,470,253 | 12,500 | 3,482,753 |
| Effect of translation adjustment | 113,128 | - | 113,128 |
| Accumulated amortization | <u>(6,730,860)</u> | <u>(3,023,689)</u> | <u>(9,754,549)</u> |
| Net balance - June 30, 2007 | <u>\$ 7,772,848</u> | <u>\$ 2,427,405</u> | <u>\$ 10,200,253</u> |
| Amortization expense: | | | |
| Year ended June 30, 2007 | \$ 930,793 | \$ 694,644 | \$ 1,625,437 |
| Year ended June 30, 2006 | \$ 1,377,385 | \$ 589,281 | \$ 1,966,666 |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The above amortization expense includes amounts in "Cost of Goods Sold" for capitalized software development costs of \$85,523 and \$69,973 for the fiscal years ended June 30, 2007 and 2006, respectively.

At June 30, 2007, product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, included unamortized software development and enhancement costs of \$5,782,366. Software development amortization expense was \$227,335 and \$105,389 for the years ended June 30, 2007 and June 30, 2006, respectively.

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

| Asset | FISCAL YEAR ENDING | | | | | TOTAL |
|------------------|---------------------|---------------------|---------------------|-------------------|------------------|---------------------|
| | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 | 6/30/12 | |
| Product Licences | \$ 949,173 | \$ 869,325 | \$ 586,094 | \$ 197,105 | \$ 85,523 | \$ 2,687,220 |
| Customer Lists | 694,644 | 694,644 | 606,852 | 431,266 | - | 2,427,406 |
| | <u>\$ 1,643,817</u> | <u>\$ 1,563,969</u> | <u>\$ 1,192,946</u> | <u>\$ 628,371</u> | <u>\$ 85,523</u> | <u>\$ 5,114,626</u> |

Goodwill is comprised of amounts recognized in the acquisition of the following:

| | Balance at June 30, 2007 | Balance at June 30, 2006 |
|----------------|-----------------------------|-----------------------------|
| NetSol PK Tech | \$ 1,166,611 | \$ 1,166,611 |
| CQ Systems | 3,471,813 | 3,471,813 |
| McCue Systems | 3,010,846 | 1,395,251 |
| NetSol Omni | 59,231 | 59,231 |
| Total | <u>\$ 7,708,501</u> | <u>\$ 6,092,906</u> |

There was no impairment of goodwill for the years ended June 30, 2007 and 2006.

NOTE 7 - OTHER ASSETS - LONG TERM

As of June 30, 2007, one of the Company's subsidiaries has reclassified two of its accounts receivable as long-term amounting to \$1,015,404, at present value discount of \$62,628. The discount was calculated using a rate of 6% and a time period of one year as the collection is scheduled in July 2008.

During the year, PK Tech has outgrown its current facility and has looked to other sources to house its growing numbers of employees. The owner of the adjacent land agreed to build an office to the Company's specifications and the Company agreed to help pay for the development of the land in exchange for discounted rent for the next three years. As of June 30, 2007, the Company has paid a total of \$479,519 in connection with this agreement. Of this amount, \$186,656 has been classified as current, representing one-year of rental payments, with the balance of \$292,863 shown as long-term assets.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2007:

| | |
|-----------------------|---------------------|
| Accounts Payable | \$ 1,039,141 |
| Accrued Liabilities | 2,159,537 |
| Accrued Payroll | 14,869 |
| Accrued Payroll Taxes | 71,921 |
| Interest Payable | 120,119 |
| Deferred Revenues | 40,597 |
| Taxes Payable | 114,468 |
| Total | <u>\$ 3,560,652</u> |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - DEBTS

NOTES PAYABLE

Notes payable consist of the following at June 30, 2007:

| Name | Balance at 6/30/07 | Current Maturities | Long-Term Maturities |
|----------------------------------|-----------------------|-----------------------|-------------------------|
| D&O Insurance | \$ 66,207 | \$ 66,207 | \$ - |
| Professional Liability Insurance | 641 | 641 | - |
| Noon Group | 565,045 | 565,045 | - |
| Subsidiary Capital Leases | 255,205 | 255,205 | 339,759 |
| | <u>\$ 887,098</u> | <u>\$ 887,098</u> | <u>\$ 339,759</u> |

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

In October 2006, the Company renewed its professional liability insurance for which the annual premium is \$7,816. The Company has arranged for financing with the insurance company with a down payment of \$2,267 and nine monthly payments of \$646 each. During the fiscal year ended June 30, 2007, the Company paid \$5,772. The balance owing at June 30, 2007 was \$641 and is classified as a current liability in the accompanying consolidated financials statements.

In January 2007, the Company renewed its directors and officers' liability insurance for which the annual premium is \$163,620. In January 2007, the Company arranged financing with AFCO Credit Corporation with a down payment of \$16,784 with the balance to be paid in nine monthly installments of \$16,784 each. The balance owing as of June 30, 2007 was \$66,207.

In addition, the various subsidiaries had current capital leases of \$255,205 as of June 30, 2007.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

LOANS PAYABLE - BANK

The Company's Pakistan subsidiary, NetSol Technologies (Private) Ltd., has two loans with a bank, secured by the Company's assets. These notes consist of the following as of June 30, 2007:

| TYPE OF LOAN | MATURITY DATE | INTEREST RATE | BALANCE USD |
|------------------|-------------------|------------------|---------------------|
| Export Refinance | Every 6 months | 7.5% | \$ 1,968,827 |
| Running Finance | On demand | 12.0% | 123,050 |
| Total | | | <u>\$ 2,091,877</u> |

The Company's subsidiary, NetSol UK, has a line of credit with HSBC Bank. Interest rate charged on amounts drawn-down is 1.75% over base rate. At June 30, 2007 this rate was 5.5%. As of June 30, 2007, the line of credit balance was £502,046 or \$1,006,051. In July 2007, this line of credit was converted into a term loan (see Note 21).

Total loans payable - bank at June 30, 2007 was \$3,097,928.

OTHER PAYABLE - ACQUISITION

As of June 30, 2007, Other Payable - Acquisition consists of total payments of \$962,406 due to the shareholders of McCue Systems.

McCue Systems

On June 30, 2006, the acquisition with McCue Systems, Inc. ("McCue") closed (see Note 20). As a result, the first installment consisting of \$2,117,864 cash and 958,213 shares of the Company's restricted common stock was recorded. The cash portion was shown as "Other Payable - Acquisition" and the stock was shown as "Shares to Be Issued" as of June 30, 2006. During the fiscal year ended June 30, 2007, \$2,059,413 of the cash portion of was paid to the McCue shareholders and in July 2006 the stock was issued. In June 2007, the second installment on the acquisition consisting of \$903,955 in cash and 408,988 shares of the Company's restricted common stock became due and was recorded. The cash portion was shown as "Other Payable - Acquisition" and the stock portion was issued on June 27, 2007. The balance at June 30, 2007 was \$962,406. In July and August 2007 \$879,007 of the cash was paid, leaving a balance of \$83,399 to be paid which represents the few remaining McCue shareholders that have not been located as of this date.

DUE TO OFFICERS

The officers of the Company from time to time loan funds to the Company. One of the officers had deferred the increase in his wages. During the fiscal year ended June 30, 2007, \$43,750 of accrued wages was added to the balance due to officers and \$62,458 was remitted to one officer against the amounts owing to him. In addition, the board of directors authorized a bonus in the amount of \$50,000 each to the three founding officers for recognition of past service and the growth in the Company. During the quarter ended March 31, 2007, the officers used the bonus to exercise options (see Note 13). In addition, one subsidiary had \$4,567 due to an officer of the subsidiary.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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

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

The balance due to officers as of June 30, 2007 was \$356,422.

CAPITAL LEASE OBLIGATIONS

The Company leases various fixed assets under capital lease arrangements expiring in various years through 2012. 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 fiscal years ended June 30, 2007 and 2006.

Following is the aggregate minimum future lease payments under capital leases as of June 30, 2007:

| | |
|---|-------------------|
| Minimum Lease Payments | |
| Due FYE 6/30/08 | \$ 313,135 |
| Due FYE 6/30/09 | 252,328 |
| Due FYE 6/30/10 | 130,217 |
| Due FYE 6/30/11 | 2,106 |
| Due FYE 6/30/12 | <u>1,229</u> |
| Total Minimum Lease Payments | 699,015 |
| Interest Expense relating to future periods | <u>(104,051)</u> |
| Present Value of minimum lease payments | 594,964 |
| Less: Current portion | <u>(255,205)</u> |
| Non-Current portion | <u>\$ 339,759</u> |

Following is a summary of fixed assets held under capital leases as of June 30, 2007:

| | |
|---------------------------------|-------------------|
| Computer Equipment and Software | \$ 661,646 |
| Furniture and Fixtures | 50,007 |
| Vehicles | 458,839 |
| Building Equipment | 150,666 |
| | <u>1,321,158</u> |
| Total | 1,321,158 |
| Less: Accumulated Depreciation | <u>(508,294)</u> |
| Net | <u>\$ 812,864</u> |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 10 - DIVIDEND PAYABLE - PREFERRED SHAREHOLDERS

On October 30, 2006, the convertible notes payable (see note 12) were converted into 5,500 shares of Series A 7% Cumulative Convertible Preferred Stock. The dividend is to be paid quarterly, either in cash or stock at the Company's election. The dividend for the fiscal year ended June 30, 2007 totaled \$237,326. Of this \$159,686 has been paid in stock and the remaining balance of \$77,640 is payable and is reflected in these consolidated financial statements. This amount was paid with the issuance of 48,956 shares of the Company's common stock on July 9, 2007.

NOTE 11 - CONVERTIBLE DEBENTURE

On March 24, 2004, the Company entered into an agreement with several investors to acquire Series A Convertible Debentures (the "Bridge Loan") whereby a total of \$1,200,000 in debentures were procured through Maxim Group, LLC. The Company received a net of \$1,049,946 after placement expenses. In addition, the beneficial conversion feature of the debenture was valued at \$252,257. The Company had recorded this as a contra-account against the loan balance and amortized the beneficial conversion feature over the life of the loan.

Under the terms of the Bridge Loan agreements, and supplements thereto, the debentures bore an interest at the rate of 10% per annum, payable on a quarterly basis in common stock or cash at the election of the Company. The maturity date was 24 months from the date of signing, or March 26, 2006. Pursuant to the terms of a supplemental agreement dated May 5, 2004 between NetSol and the debenture holders, the conversion rate was set at one share for each \$1.86 of principal.

In addition, each debenture holder was entitled to receive at the time of conversion warrants equal to one-half of the total number of shares issued. The total number of warrants that may be granted was 322,582. The warrants expire in five years and have an exercise price of \$3.30 per share. The fair value of the warrants was calculated and recorded using the Black-Scholes method at the time of granting, when the debenture was converted.

During the fiscal year ended June 30, 2006, three of the convertible debenture holders elected to convert their notes into common stock. As part of the conversion, warrants to purchase a total of 40,323 common shares were issued to the note holders. The warrants were valued using the fair value method at \$21,505 and was recorded as an expense in the accompanying consolidated financial statements for the fiscal year ended June 30, 2006.

NOTE 12 - CONVERTIBLE NOTE PAYABLE

On June 15, 2006, the Company entered into an agreement with 5 accredited investors whereby the Company issued 5 convertible notes payable for an aggregate principal value of \$5,500,000. These notes had interest at the rate of 12% per annum and were due in full one year from the issuance date or on June 15, 2007 (the "Financing"). The Convertible Notes could immediately convert into shares of common stock of the Company at the conversion value (initially set at one share per \$1.65 of principal dollar) to the extent that such conversion does not violate Nasdaq Market Place rules. Upon the approval of the stockholders, to the extent not already converted into common shares, the Convertible Notes Payable will immediately convert into shares of Preferred Stock. On October 18, 2006, the shareholders approved the issuance of the shares and on October 30, 2006 the notes were converted into 5,500 shares of Series A 7% Cumulative Preferred Stock (see note 13). During the fiscal year ended June 30, 2007, \$251,167 of interest was accrued. On December 13, 2006, the note holders agreed to accept shares of the Company's common stock in payment of the interest owed to them. In addition, the note holders required the Company to issue a total of 60,000 shares of the Company's common stock valued at \$88,201 as a premium to receive payment in shares rather than cash. This amount is included in "interest expense" in the accompanying consolidated financial statements.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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

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

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

The Black-Scholes pricing model used the following assumptions:

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

Under the agreement, any future financing whereby warrants are issued at an exercise price lower than the exercise price of the warrants in the agreement, an adjustment to the exercise price is to be made. During the fiscal year ended June 30, 2007, a financing was completed which included the issuance of warrants at an exercise price of \$1.65 (see Note 13). Following the formula set out in the agreement, it was determined that the adjusted exercise price was \$1.93 per share. As a result, the Company revalued the warrants for the adjusted exercise price using the Black-Scholes model at \$2,120,000 and recorded an expense of \$11,667 for the repricing of the warrants. The Black-Scholes pricing model used the same assumptions as for the original valuation of the warrants.

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

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

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

The Black-Scholes pricing model used the following assumptions:

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

NOTE 13 - STOCKHOLDERS' EQUITY

PREFERRED STOCK

On October 30, 2006, the convertible notes payable (see note 12) were converted into 5,500 shares of Series A 7% Cumulative Convertible Preferred Stock. The preferred shares are valued at \$1,000 per share or \$5,500,000. The preferred shares are convertible into common stock at a rate of \$1.65 per common share. The total shares of common stock that can be issued under these Series A Preferred Stock is 3,333,333. On January 19, 2007, the Form S-3 statement to register the underlying common stock and related dividends became effective. As of June 30, 2007, 1,370 of the preferred shares had been converted into 830,302 shares of the Company's common stock.

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

Business Combinations:

CQ Systems, Inc.

In February 2005, the Company completed the acquisition of CQ Systems, (see Note 19). As part of this agreement, the Company issued 759,468 shares of its restricted common stock valued at \$1,816,301 to the shareholders of CQ Systems.

In June 2006, the final installment was due for the acquisition and the Company issued 884,535 shares of its restricted common stock valued at \$1,848,680 to the shareholders of CQ Systems.

McCue Systems, Inc.

In June 2006, the Company completed the acquisition of McCue Systems, Inc. (see Note 20). During fiscal year end June 30, 2007 as part of this agreement, the Company issued 931,770 shares of its restricted common stock valued at \$1,584,009 to the shareholders of McCue Systems for the initial down payment.

In June 2007, the second installment became due for the acquisition and the Company issued 397,700 shares of its restricted common stock valued at \$711,640 to the shareholders of McCue Systems. In addition, a total of 37,731 shares valued at \$64,612 are shown in "Shares to Be Issued" in these consolidated financial statements representing McCue Systems shareholders that have not been located as of this date.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

Private Placements

In August 2004, the Company sold 190,476 shares of the Company's common stock for \$200,000 in a private placement. Of this amount \$158,093 has been received as of June 30, 2005, with the balance of \$41,907 shown in "Subscriptions Receivable" on the accompanying consolidated financial statements. During the year ended June 30, 2007 \$30,093 was received. The total shares have been issued to the purchaser.

In January 2006, the Company sold 933,334 shares of the Company's common stock for \$1,400,000 in a private placement.

In June 2007, the Company sold 757,576 shares of the Company's common stock to two institutional investors for \$1,250,000. These shares are shown in "Shares to be Issued" in the accompanying consolidated financial statements. The Company received \$1,000,000 of this by June 30, 2007 and the remainder is shown as "Subscription Receivable." The \$250,000 cash due was received on July 2, 2007. The shares were issued in July 2007. As part of the agreement, the investors were granted 378,788 warrants with an exercise price of \$1.65.

Services, Accrued Expenses and Payables

During the year ended June 30, 2006, the Company issued 10,500 restricted Rule 144 common shares valued at \$20,382 in exchange for services rendered. Compensation expense was calculated based upon the fair market value of the freely trading shares as quoted on NASDAQ through 2006 and 2005, over the service period.

In July 2004, the Board of Directors and officers were granted the right to receive shares of the Company's common stock if certain conditions were met during their 2004 - 2005 term of office. These conditions were met and a total of 28,000 restricted Rule 144 common shares were issued in August 2005 and 11,000 shares were issued in March 2006. The shares were valued at the fair market value at the date of grant of \$57,034 or \$1.46 per share.

In July 2005, the Board of Directors and officers were granted the right to receive shares of the Company's common stock if certain conditions were met during their 2005 - 2006 term of office. These conditions were met and a total of 15,000 restricted Rule 144 common shares were issued in August 2006. The shares were valued at the fair market value at the date of grant of \$23,100 or \$1.54 per share.

In October 2005, the Company issued 36,607 restricted Rule 144 common shares valued at \$71,018 in payment of \$50,000 in principal, \$16,000 in penalties and \$2,453 in accrued interest on a note payable.

In October 2005, the Company entered into an agreement with a vendor whereby the Company issued the vendor 27,231 shares valued at \$52,828 for the payment of outstanding invoices in the amount of \$50,923. As a result, the Company recorded a loss on settlement of debt in the amount of \$1,905.

In October 2005, the Company entered into an agreement with a vendor whereby the Company agreed to issue \$2,500 worth of stock per month as payment for services rendered. The stock is to be issued after the end of each quarter. The Company issued 12,177 and 7,755 shares of its common stock during the fiscal years ended June 30, 2007 and 2006 valued at \$21,250 and \$15,000, respectively. The agreement was terminated on December 15, 2006.

In March 2006, the Company entered into an agreement with a former consultant whereby the Company agreed to issue the consultant 10,000 restricted Rule 144 shares of its common stock valued at \$19,200 for past services.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

In March 2006, a director exercised 15,000 options at \$.75 per share for a total of \$11,250. The value of the shares was applied against accrued fees payable.

In January 2006, the Company entered into an agreement with two consultants whereby the Company agreed to issue shares of the Company's restricted common stock for their services. During the fiscal year ended June 30, 2007, the Company issued 160,624 shares of restricted common stock valued at \$269,128. The agreement was terminated in May 2007.

In October 2006, the Company entered into an agreement with a consultant whereby the Company agreed to issue 25,000 shares of the Company's restricted common stock at the signing of the agreement. The shares were valued at \$36,250 or \$1.45 per share.

In October 2006, the Company entered into an agreement with a consultant whereby the Company agreed to issue a total of 40,000 of the Company's restricted stock, to be paid at the end of each quarter of service. As of June 30, 2007, the Company has recorded as "Stock to Be Issued" 10,000 shares valued at \$15,000 or \$1.50 per share under this agreement.

Issuance of shares for Conversion of Debt

During the year ended June 30, 2006, three of the convertible debenture holders elected to convert their notes into common stock, respectively. The total of the notes converted was \$150,000 and the Company issued 80,646 shares of its common stock to the note holders.

Options and Warrants Exercised

During the year ended June 30, 2006, the Company issued 285,383 shares of its common stock for the exercise of options valued at \$343,132. Of these, \$52,500 has been recorded as "Stock Subscription Receivable". In addition, 3,030 shares valued at \$5,000 have been shown as "Stock to Be Issued."

During the year ended June 30, 2007, the Company issued 1,571,243 shares of its common stock for the exercise of options valued at \$2,585,474. Of this, \$1,173,750 was recorded as "Stock Subscription Receivable", \$33,750 was a cashless exercise whereby the exercise price was applied against amounts owed by the Company to a Director, and \$7,000 was applied to amounts owed by the Company to an employee. \$150,000 was a cashless exercise whereby the exercise price was applied against amounts owed by the Company to three officers (see Note 9). In addition, 3,030 shares of the Company's common stock valued at \$5,000 was issued against payments made in the previous year and was recorded as a reduction in "Shares to Be Issued."

Payment of Interest

On December 13, 2006, the Company issued a total of 230,863 shares of the Company's common stock valued at \$339,137 or \$1.47 per share to the convertible note holders as payment of the interest due to them (see note 12). This payment included 60,000 shares valued at \$88,201 as premium shares to accept payment of the interest in the Company's common stock rather than cash. These shares have been registered with the Securities and Exchange Commission.

Payment of Dividend to Preferred Stockholders

During the fiscal year ended June 30, 2007, the Company issued a total of 105,589 shares of the Company's common stock valued at \$159,684 as payment of the dividend owed to the Preferred Stockholders (see Note 10).

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

Stock Subscription Receivable

Stock subscription receivable represents stock options exercised and issued that the Company has not yet received the payment from the purchaser.

During the year ended June 30, 2006, the Company recorded \$52,500 in receivable and collected \$369,900. The Company also recorded the cancellation of \$43,650 due as a charge to additional paid-in capital as a result of a review of the records when the amount was recorded in 2000. It was determined the amount was not due and therefore was cancelled. The balance of the receivable at June 30, 2006 was \$299,250.

During the year ended June 30, 2007, issued a total of \$1,673,750 of new receivables and received payments of \$936,593. In addition, \$35,000 was applied to amounts owing from a subsidiary. The balance at June 30, 2007 was \$1,001,407.

Treasury Stock

During the year ended June 30, 2006, the Company issued 10,000 of its treasury shares valued at \$17,002 for the payment of services. There was no activity in this account during the fiscal year ended June 30, 2007. The balance at June 30, 2007 was \$10,194.

Common Stock Purchase Warrants and Options

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

Common stock purchase options and warrants consisted of the following as of June 30, 2007:

| | <u># shares</u> | <u>Exercise Price</u> | <u>Aggregated Intrinsic Value</u> |
|--|-----------------|-----------------------|-----------------------------------|
| Options: | | | |
| Outstanding and exercisable, June 30, 2006 | 8,585,500 | \$ 0.75 to \$5.00 | \$ 269,125 |
| Granted | 180,606 | \$ 1.65 | |
| Exercised | (1,573,743) | \$ 0.75 to \$1.94 | |
| Expired | (90,000) | \$ 2.64 to \$5.00 | |
| Outstanding and exercisable, June 30, 2007 | 7,102,363 | \$ 0.75 to \$5.00 | \$ 129,521 |
| Warrants: | | | |
| Outstanding and exercisable, June 30, 2006 | 2,598,937 | \$ 1.75 to \$5.00 | \$ 13,333 |
| Granted | 403,788 | \$ 1.65 to \$3.70 | |
| Exercised | - | | |
| Expired | - | | |
| Outstanding and exercisable, June 30, 2007 | 3,002,725 | \$ 1.65 to \$5.00 | \$ 58,091 |

The average life remaining on the options and warrants as of June 30, 2007 is as follows:

| <u>Exercise Price</u> | <u>Number Outstanding and Exercisable</u> | <u>Weighted Average Remaining Contractual Life</u> |
|-----------------------|---|--|
| OPTIONS: | | |
| \$0.01 - \$0.99 | 39,000 | 4.56 |
| \$1.00 - \$1.99 | 2,963,363 | 8.00 |
| \$2.00 - \$2.99 | 3,270,000 | 7.76 |
| \$3.00 - \$5.00 | 830,000 | 6.77 |
| Totals | <u>7,102,363</u> | <u>7.73</u> |
| WARRANTS: | | |
| \$1.00 - \$1.99 | 2,324,622 | 4.07 |

| | | |
|-----------------|------------------|-------------|
| \$2.00 - \$2.99 | 120,000 | 1.35 |
| \$3.00 - \$5.00 | 558,103 | 1.87 |
| Totals | <u>3,002,725</u> | <u>3.56</u> |

All options and warrants are vested and are exercisable as of June 30, 2007.

Options:

During the year ended June 30, 2006, 3,848,413 options were granted to employees of the company and are fully vested and expire ten years from the date of grant unless the employee terminates employment, in which case the options expire within 30 days of their termination. The exercise price of these options ranges between \$1.65 and \$3.00. No expense was recorded for the granting of these options.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

During the year ended June 30, 2006, a total of 2,500 options were granted to a consultant and are fully vested from the date of grant. The options expire in ten years and have an exercise price of \$1.98 per share. The options were valued using the fair value method at \$4,113 or \$1.65 per share and recorded the expense in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

| | |
|-------------------------|----------|
| Risk-free interest rate | 3.25% |
| Expected life | 10 years |
| Expected volatility | 82% |
| Dividend yield | 0% |

Prior to July 1, 2006, the Company measured stock compensation expense using the intrinsic value method of accounting in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations (APB No. 25).

The company adopted SFAS No. 123-R effective July 1, 2006 using the modified prospective method. Under this transition method, stock compensation expense recognized in the six months ended December 31, 2006 includes compensation expense for all stock-based compensation awards vested during the six months ended December 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R.

For periods presented prior to the adoption of SFAS No. 123R, pro forma information regarding net income and earnings per share as required by SFAS No. 123R has been determined as if the Company had accounted for its employee stock options under the original provisions of SFAS No. 123. The fair value of these options was estimated using the Black-Scholes option pricing model. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the option's vesting period. The pro forma expense to recognize and adjusted net earnings per share for the fiscal year ended June 30, 2006 is as follows:

| | <u>2006</u> |
|--|-----------------------|
| Net income (loss) - as reported | \$ (1,353,053) |
| Stock-based employee compensation expense, included in reported net loss, net of tax | - |
| Total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax | (5,674,402) |
| Pro forma net loss | <u>\$ (7,027,455)</u> |
| Earnings per share: | |
| Basic, as reported | (0.09) |
| Diluted, as reported | (0.09) |
| Basic, pro forma | (0.48) |
| Diluted, pro forma | (0.48) |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

Pro forma information regarding the effect on operations is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. Pro forma information using the Black-Scholes method at the date of grant based on the following assumptions:

| | 2006 |
|-------------------------|--------------|
| Expected life (years) | 10 years |
| Risk-free interest rate | 3.25% - 6.0% |
| Dividend yield | - |
| Volatility | 54% - 100% |

Impact of adoption of SFAS No. 123-R for the fiscal year ended June 30, 2007:

During the quarter ended June 30, 2007, 180,606 options were granted to employees with an exercise price of \$1.65 per share and an expiration date of one-year. All options granted have been exercised as of June 30, 2007. Using the Black-Scholes method to value the options, the Company recorded \$102,584 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

| | |
|-------------------------|---------|
| Risk-free interest rate | 7% |
| Expected life | 1 years |
| Expected volatility | 83% |

Methods of estimating fair value:

Under both SFAS No. 123-R and under the fair value method of accounting under SFAS No. 123 (i.e., SFAS No. 123 Pro Forma), the fair value of stock options is determined using the Black-Scholes model.

Under SFAS No. 123-R, the company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

SFAS No. 123-R requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

Warrants:

During the year ended June 30, 2006, three debenture holders converted their notes into common stock. As part of the conversion, warrants to purchase a total of 40,323 common shares were issued to the note holders. The warrants expire in five years and have an exercise price of \$3.30 per share. The warrants were valued using the fair value method at \$21,505 and ranged between \$0.45 and \$0.71 per share and recorded the expense in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

| | |
|-------------------------|-----------|
| Risk-free interest rate | 3.25% |
| Expected life | 5 years |
| Expected volatility | 44% - 56% |
| Dividend yield | 0% |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

On October 11, 2006, the Company entered into an agreement with a consultant whereby the Company agreed to grant the consultant a total of 100,000 warrants with an exercise price of \$1.85 and 100,000 warrants with an exercise price of \$3.70. The warrants vest equally over the term of the agreement on a quarterly basis commencing on January 11, 2007 and vest only upon completion of the quarter's service as earned. The agreement was terminated on March 31, 2007. The warrants are exercisable until October 10, 2011. During the fiscal year ended June 30, 2007, a total of 25,000 of the warrants had vested. The warrants were valued using the fair value method at \$33,987 or \$1.44 and \$1.28 per share and recorded the expense in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

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

NOTE 14 - INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

The 2001 Plan

On March 27, 2002, the Company enacted an Incentive and Non-statutory Stock Option Plan (the "2001 Plan") for its employees and consultants under which a maximum of 2,000,000 options may be granted to purchase common stock of the Company. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

The number and exercise prices of options granted under the 2001 Plan for the years ended June 30, 2007 and 2006 are as follows:

| | 2007 | Exercise Price | 2006 | Exercise Price |
|--|----------|-------------------|----------|-------------------|
| Outstanding and exercisable, beginning of year | 46,000 | \$ 0.75 to \$2.50 | 111,000 | \$ 0.75 to \$2.50 |
| Granted | - | | - | |
| Exercised | (15,000) | \$ 1.00 to \$1.25 | (65,000) | \$ 0.75 to \$1.75 |
| Expired | - | - | - | - |
| Outstanding and exercisable, end of year | 31,000 | \$ 0.75 to \$1.25 | 46,000 | \$ 0.75 to \$1.25 |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

The 2002 Plan

In January 2003, the Company enacted an Incentive and Non-statutory Stock Option Plan (the "2002 Plan") for its employees and consultants under which a maximum of 2,000,000 options may be granted to purchase restricted Rule 144 common stock of the Company. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

The number and weighted average exercise prices of options granted under the 2002 Plan for the year ended June 30, 2007 and 2006 are as follows:

| | 2006 | Exercise Price | 2006 | Exercise Price |
|--|-----------|-------------------|-----------|-------------------|
| Outstanding and exercisable, beginning of year | 1,059,500 | \$ 0.75 to \$2.50 | 1,139,500 | \$ 0.75 to \$2.50 |
| Granted | - | - | - | - |
| Exercised | (47,500) | \$ 0.75 to \$2.30 | (80,000) | \$ 0.75 |
| Expired | (40,000) | \$ 3.00 to \$5.00 | - | - |
| Outstanding and exercisable, end of year | 972,000 | \$ 0.75 to \$5.00 | 1,059,500 | \$ 0.75 to \$5.00 |

The 2003 Plan

In March 2004, the Company enacted an Incentive and Non-statutory Stock Option Plan (the "2003 Plan") for its employees and consultants under which a maximum of 2,000,000 options may be granted to purchase restricted Rule 144 common stock of the Company. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

The number and weighted average exercise prices of options granted under the 2003 Plan for the year ended June 30, 2007 and 2006 are as follows:

| | 2007 | Exercise Price | 2006 | Exercise Price |
|--|-----------|-------------------|---------|-------------------|
| Outstanding and exercisable, beginning of year | 970,000 | \$ 1.00 to \$5.00 | 787,500 | \$ 1.00 to \$5.00 |
| Granted | 180,606 | \$ 1.65 | 182,500 | \$ 1.70 to \$2.55 |
| Exercised | (355,606) | \$ 1.25 to \$1.65 | - | - |
| Expired | (50,000) | \$ 2.64 to \$5.00 | - | - |
| Outstanding and exercisable, end of year | 745,000 | \$ 1.70 to \$5.00 | 970,000 | \$ 1.25 to \$5.00 |

The 2004 Plan

In March 2005, the Company enacted an Incentive and Non-statutory Stock Option Plan (the "2004 Plan") for its employees and consultants under which a maximum of 5,000,000 options may be granted to purchase common stock of the Company. A registration statement on form n S-8 was filed on April 7, 2006 registering the shares of common stock underlying the options in this plan. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

The number and weighted average exercise prices of options granted under the 2004 Plan for the year ended June 30, 2007 and 2006 are as follows:

| | 2006 | Exercise Price | 2006 | Exercise Price |
|--|-------------|-------------------|-----------|-------------------|
| Outstanding and exercisable, beginning of year | 4,730,000 | \$ 1.65 to \$3.00 | 3,000,000 | \$ 1.94 to \$2.91 |
| Granted | - | - | 1,888,413 | \$ 1.65 to \$3.00 |
| Exercised | (1,155,637) | \$ 1.65 to \$1.94 | (158,413) | \$ 1.65 to \$1.75 |
| Expired | - | - | - | - |
| Outstanding and exercisable, end of year | 3,574,363 | \$ 1.65 to \$3.00 | 4,730,000 | \$ 1.65 to \$3.00 |

The 2005 Plan

In April 2006, the Company enacted an Incentive and Non-statutory Stock Option Plan (the "2005 Plan") for its employees and consultants under which a maximum of 5,000,000 options may be granted to purchase restricted Rule 144 common stock of the Company. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

The number and weighted average exercise prices of options granted under the 2005 Plan for the year ended June 30, 2006 are as follows:

| | 2007 | Exercise Price | 2006 | Exercise Price |
|--|-----------|-------------------|-----------|-------------------|
| Outstanding and exercisable, beginning of year | - | - | - | - |
| Granted | 1,780,000 | \$ 1.70 to \$2.55 | 1,780,000 | \$ 1.70 to \$2.55 |
| Exercised | - | - | - | - |
| Expired | - | - | - | - |
| Outstanding and exercisable, end of year | 1,780,000 | \$ 1.70 to \$2.55 | 1,780,000 | \$ 1.70 to \$2.55 |

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Leases

The Company's headquarters is located in California in approximately 1,919 rentable square feet and a monthly rent of \$4,754 per month. The term of the lease is for one year and expires on December 31, 2007. A security deposit of \$4,447 was made and is included in other current assets in the accompanying consolidated financial statements.

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 two year lease that expires in August 2009. The monthly rent is \$4,315 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 \$144,900). NetSol McCue, Inc., located in Burlingame, California, premises are leased until June 30, 2009 with a monthly rent of \$16,178.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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. Rent expense amounted to \$804,295 and \$521,496 for the years ended June 30, 2007 and 2006, respectively.

Lahore Technology Campus

In May 2004, the newly built Technology Campus was inaugurated in Lahore, Pakistan. 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. 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 human resources, the management has also established a gymnasium there.

Employment Agreements

Effective January 1, 2007, the Company entered into an Employment Agreement with our Chief Executive Officer. Pursuant to the Employment Agreement between him and the Company (the "CEO Agreement"), the Company agreed to employ him as its Chief Executive Officer from the date of the CEO Agreement through December 31, 2009. Under the CEO Agreement, he is entitled to an annualized base salary of \$275,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, he is entitled to participate in the Company's stock option plans, is entitled to two weeks of paid vacation per calendar year and is to receive a car allowance totaling \$3,000 per month for the term of the CEO Agreement. Finally, during the term of the CEO Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of him, his spouse and dependent family members under the Company's health and related benefit plans.

Effective January 1, 2007, the Company entered into an Employment Agreement with our President of the EMEA Region and Chief Executive Officer of the Global Products Division. Pursuant to the Employment Agreement between him and the Company (the "President EMEA Agreement"), the Company agreed to employ him as its President of the EMEA region and Chief Executive Officer of the Global Products Division from the date of the President EMEA Agreement through December 31, 2009. Under the President EMEA Agreement, he is entitled to an annualized base salary of \$225,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, he is entitled to participate in the Company's stock option plans, is entitled to two weeks of paid vacation per calendar year and is to receive a car allowance totaling \$2,000 per month for the term of the President EMEA Agreement. Finally, during the term of the President EMEA Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of him, his spouse and dependent family members under the Company's health and related benefit plans.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

Effective January 1, 2007, the Company entered into an Employment Agreement with our President of the APAC Region and Chief Executive Officer of the Global Services Division. Pursuant to the Employment Agreement between him and the Company (the "President APAC Agreement"), the Company agreed to employ him as its President APAC and Chief Executive Officer of the Global Services Division from the date of the President APAC Agreement through December 31, 2009. Under the President APAC Agreement, he is entitled to an annualized base salary of \$175,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, he is entitled to participate in the Company's stock option plans, is entitled to two weeks of paid vacation per calendar year. Finally, during the term of the President APAC Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of him, his spouse and dependent family members under the Company's health and related benefit plans.

Effective May 1, 2006, the Company entered into an Employment Agreement with our Secretary and General Counsel. Pursuant to the Employment Agreement between her and the Company (the "General Counsel Agreement"), the Company agreed to employ her as its Secretary and General Counsel from the date of the General Counsel Agreement through April 30, 2008. Under the General Counsel Agreement, she was entitled to an annualized base salary of \$110,000 and is eligible for annual bonuses at the discretion of the Chief Executive Officer. Effective August 1, 2007, her annualized salary was raised to \$130,000. The Company retained the right to increase the base compensation as it deems necessary. In addition, she is entitled to participate in the Company's stock option plans and, is entitled to two weeks of paid vacation per calendar year. Finally, during the term of the General Counsel Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of her, her spouse and dependent family members under the Company's health and related benefit plans.

Effective July 20, 2005, we entered into an employment agreement with the Chief Financial Officer. The agreement was amended effective May 1, 2006 to provide a yearly salary of \$95,000. Effective August 1, 2007, her annualized salary was raised to \$132,000 and is eligible for annual bonuses at the discretion of the Chief Executive Officer. The Company retained the right to increase the base compensation as it deems necessary. In addition, she is entitled to participate in the Company's stock option plans and, is entitled to two weeks of paid vacation per calendar year. Finally, during the term of the Chief Financial Officer Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of her and her dependent family members under the Company's health and related benefit plans.

The agreements also provide for reimbursement of reasonable business-related expenses. The agreements also provide for certain covenants concerning non-competition, non-disclosure, indemnity and assignment of intellectual property rights.

Litigation

As of June 30, 2007 and 2006, to the best knowledge of the Company's management and counsel, there is no material litigation pending or threatened against the Company.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 16 - SEGMENT AND GEOGRAPHIC AREAS

The following table presents a summary of operating information and certain year-end balance sheet information for the years ended June 30, 2007 and 2006:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|----------------------|----------------------|
| Revenues from unaffiliated customers: | | |
| North America | \$ 4,953,083 | \$ 45,250 |
| Europe | 5,482,972 | 7,414,960 |
| Asia - Pacific | 18,846,031 | 11,230,202 |
| Consolidated | <u>\$ 29,282,086</u> | <u>\$ 18,690,412</u> |
| Operating income (loss): | | |
| Corporate headquarters | \$ (3,358,739) | \$ (3,688,598) |
| North America | 29,257 | - |
| Europe | (704,530) | 898,141 |
| Asia - Pacific | 6,680,880 | 2,531,110 |
| Consolidated | <u>\$ 2,646,868</u> | <u>\$ (259,347)</u> |
| Identifiable assets: | | |
| Corporate headquarters | \$ 13,263,112 | \$ 17,630,388 |
| North America | 2,070,829 | 2,329,837 |
| Europe | 4,833,181 | 4,318,911 |
| Asia - Pacific | 29,362,019 | 18,746,011 |
| Consolidated | <u>\$ 49,529,141</u> | <u>\$ 43,025,147</u> |
| Depreciation and amortization: | | |
| Corporate headquarters | \$ 1,406,989 | \$ 1,887,646 |
| North America | 131,850 | - |
| Europe | 268,795 | 173,258 |
| Asia - Pacific | 833,638 | 959,144 |
| Consolidated | <u>\$ 2,641,272</u> | <u>\$ 3,020,048</u> |
| Capital expenditures: | | |
| Corporate headquarters | \$ 3,986 | \$ 4,367 |
| North America | 20,820 | - |
| Europe | 249,690 | 192,752 |
| Asia - Pacific | 2,145,974 | 2,512,450 |
| Consolidated | <u>\$ 2,420,470</u> | <u>\$ 2,709,569</u> |

NOTE 17 - MINORITY INTEREST IN SUBSIDIARY

The Company had minority interests in several of its subsidiaries. The balance of the minority interest as of June 30, 2007 was as follows:

| <u>SUBSIDIARY</u> | <u>MIN INT %</u> | <u>MIN INT BALANCE AT 6/30/07</u> |
|-------------------|------------------|---|
| PK Tech | 28.13% | \$ 1,876,212 |
| NetSol-TiG | 49.90% | 1,413,848 |
| Connect | 49.90% | 262,575 |
| Omni | 49.90% | - |
| Total | | <u>\$ 3,552,635</u> |

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NetSol Technologies, Limited (“PK Tech”)

In August 2005, the Company’s wholly-owned subsidiary, NetSol Technologies (Pvt), Ltd. (“PK Tech”) became listed on the Karachi Stock Exchange in Pakistan. The Initial Public Offering (“IPO”) sold 9,982,000 shares of the subsidiary to the public thus reducing the Company’s ownership by 28.13%. Net proceeds of the IPO were \$4,890,224. As a result of the IPO, the Company is required to show the minority interest of the subsidiary on the accompanying consolidated financial statements.

For the fiscal years ended June 30, 2007 and 2006, the subsidiary had net income of \$4,747,590 and \$1,780,892, of which \$1,375,247 and \$500,965, respectively, was recorded against the minority interest. The balance of the minority interest at June 30, 2007 was \$1,876,212.

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

NetSol-TiG:

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

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

For the fiscal years ended June 30, 2007 and 2006, the subsidiary had net income of \$1,401,444 and \$879,134, of which \$596,802 and \$438,688 was recorded against the minority interest, respectively. The balance of the minority interest at June 30, 2007 was \$1,413,848.

NetSol Connect:

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

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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

For the fiscal years ended June 30, 2007 and 2006, the subsidiary had net loss of \$57,117 and net income of \$14,304, respectively, of which (\$28,501) and \$7,318 respectively, was recorded against the minority interest. The balance of the minority interest at June 30, 2007 was \$262,575.

Talk Trainers (Private) Limited (“Talk Trainers”) - NetSol Omni

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

For the fiscal years ended June 30, 2007 and 2006, the subsidiary had a net loss of \$71,298 and net income of \$14,689, of which (\$7,959) and \$8,315 was recorded against the minority interest. The balance of the minority interest at June 30, 2007 was \$0.

NOTE 18 - GAIN ON SETTLEMENT OF DEBT

During the year ended June 30, 2006, the Company entered into agreements with several vendors whereby the vendors agreed to accept as payment in full amounts less than the invoiced amount. As a result of these settlements, the Company recorded a net gain on settlement of debt of \$8,294.

NOTE 19 - ACQUISITION OF CQ SYSTEMS

On January 19, 2005, the Company entered into an agreement to acquire 100% of the issued and outstanding shares of common stock of CQ Systems Ltd., a company organized under the laws of England and Wales. The acquisition closed on February 22, 2005.

According to the terms of the Share Purchase Agreement, the Company acquired 100% of the issued and outstanding shares of CQ from CQ's current shareholders, whose identity is set forth in the Share Purchase Agreement (the “CQ Shareholders”) at the completion date in exchange for a purchase price consisting of: a) 50.1% of CQ's total gross revenue for the twelve month period ending March 31, 2005 after an adjustment for any extraordinary revenue, i.e. non-trading revenue (“LTM Revenue”) multiplied by 1.3 payable: (i) 50% in shares of restricted common stock of the Company at a per share cost basis of \$2.313 and as adjusted by the exchange rate of U.S. Dollar to British Pound (at the spot rate for the purchase of sterling with U.S. dollars certified by NatWest Bank plc as prevailing at or about 11:00 a.m.) on January 19, 2005 and, (ii) 50% in cash; and b) 49.9% of CQ's LTM Revenue for the period ending March 31, 2006 multiplied by 1.3 payable, at the Company's discretion: (i) wholly in cash; or (ii) on the same basis and on the same terms as the initial payment provided, however that the cost basis of the Company's common stock shall be based on the 20 day volume weighted average of the Company's shares of common stock as traded on NASDAQ 20 days prior to March 31, 2005 and, provided that under no circumstances shall the total number of shares of common stock issued to the CQ Shareholders exceed 19% of the issued and outstanding shares of common stock, less treasury shares, of the Company at January 19, 2005.

The initial purchase price was £3,576,335 or \$6,730,382, of which one-half was due at closing payable in cash and stock and the other half is due when the audited March 31, 2006 financial statements are completed. On the closing date, \$1.7 million was paid and 681,965 shares were issued to the shareholders of CQ, valued at \$1,676,795 at an average share price of \$2.46 (see note 11) was recorded. In addition, the agreement called for the accumulated retained earnings amounting to £423,711 or \$801,915 of CQ Systems as of the closing date to be paid to the shareholders in cash and stock. In April 2005, the additional cash of £350,000 or \$662,410 was paid and 77,503 shares of the Company's common stock valued at \$139,505 were issued. The total amount paid at closing was \$4,178,710.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

In accordance with SFAS 141, the Company had recognized the lesser of the maximum amount of the contingent consideration based on earnings or the excess of the fair market value of assets acquired over the purchase price as a deferred liability. The deferred liability balance at June 30, 2005 was \$313,397. The purchase price was allocated as follows:

Purchase Price Allocation:

| | |
|-------------------------------|--------------|
| Purchase Price | \$ 7,532,297 |
| Less contingent consideration | (3,353,587) |
| Net purchase price | \$ 4,178,710 |
| | |
| Net tangible assets | \$ 984,420 |
| <i>Intangible Assets:</i> | |
| Product License | 2,190,807 |
| Customer Lists | 1,316,880 |
| Deferred liability | (313,397) |
| Net purchase price | \$ 4,178,710 |

In June 2006, the final installment for the purchase of CQ Systems was determined based on the audited revenues for the twelve month period ending March 31, 2006. Based on the earn-out formula in the purchase agreement, £2,087,071 or \$3,785,210 was due in cash and stock. On June 12, 2006, 884,535 shares of the Company's restricted common stock were issued to the shareholders of CQ Systems. In July 2006, the cash portion of \$1,936,530 plus \$31,810 of interest was paid to the shareholders. As a result of the final payment the Company recorded an addition of \$3,471,813 to goodwill.

NOTE 20 - ACQUISITION OF McCUE SYSTEMS

On May 6, 2006, the Company entered into an agreement to acquire 100% of the issued and outstanding stock of with McCue Systems, Inc. ("McCue"), a California corporation. The acquisition closed on June 30, 2006.

According to the terms of the Share Purchase Agreement, the Company acquired 100% of the issued and outstanding shares of McCue from McCue's current shareholders, whose identity is set forth in the Share Purchase Agreement (the "McCue Shareholders") at the completion date in exchange for a purchase price consisting of: a) 50% of McCue's total gross revenue for the audited twelve month period ending December 31, 2005 after an adjustment for any revenue occurring outside of the company's ordinary scope of operations as defined by US GAAP multiplied by 1.5 payable: (i) 50% in shares of restricted common stock of the Company at the 30 day volume weighted average price ("VWAP") for each of the 30 trading days prior to the execution date of this agreement or at the VWAP for each of the 30 trading days prior to November 30, 2005 whichever is the greater VWAP; and, (ii) 50% in cash; b) 25% of McCue's total gross revenue for the twelve months ending December 31, 2006 multiplied by 1.5 payable, at the Company's discretion: (i) wholly in cash; or (ii) on the same basis and on the same terms as the initial payment provided that under no circumstances shall the total number of shares of common stock issued to the McCue Shareholders exceed 19% of the issued and outstanding shares of common stock, less treasury shares, of the Company at May 6, 2006; and c) 25% of McCue's total gross revenue for the twelve months ending December 31, 2007 multiplied by 1.5 payable, at the Company's discretion: (i) wholly in cash; or (ii) on the same basis and on the same terms as the initial payment provided that under no circumstances shall the total number of shares of common stock issued to the McCue Shareholders exceed 19% of the issued and outstanding shares of common stock, less treasury shares, of the Company at May 6, 2006.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

The initial purchase price was estimated at \$8,471,455 of which one-half was due at closing payable in cash and stock. The other half is due in two installments over the next two years based on revenues after the audited December 31, 2006 and 2007 financial statements are completed. On the closing date, \$2,117,864 payable and 958,213 shares to be issued valued at \$1,628,979, adjusted for the market value at closing, was recorded. The cash was paid on July 5, 2006 and the shares were also issued in July 2006. The total amount recorded at closing was \$3,746,843.

The purchase price was allocated as follows:

Purchase Price Allocation:

| | |
|---|---------------------|
| Purchase Price | \$ 8,471,455 |
| Less contingent consideration | (4,235,727) |
| Adjustment for valuation of shares to market at closing | (488,885) |
| Net purchase price | <u>\$ 3,746,843</u> |
| | |
| Net tangible assets | \$ 80,245 |
| <i>Intangible Assets:</i> | |
| Product License | 127,510 |
| Customer Lists | 2,143,837 |
| Goodwill | 1,395,251 |
| Net purchase price | <u>\$ 3,746,843</u> |

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

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

The following is the proforma financial information of the Company assuming the transaction had been consummated at the beginning of the fiscal years ended June 30, 2006:

| | For the year Ended June 30, 2006 <u> </u> (Unaudited) |
|--|--|
| Statement of Operations: | |
| Revenues | \$ 24,537,975 |
| Cost of Sales | <u>11,547,697</u> |
| Gross Profit | 12,990,278 |
| Operating Expenses | <u>13,393,543</u> |
| Income (loss) from operations | (403,265) |
| Other income and (expenses) | <u>(242,300)</u> |
| Income (loss) before minority interest | (645,565) |
| Minority interest in subsidiary | <u>(954,120)</u> |
| Net Income (loss) | <u>\$ (1,599,685)</u> |
| | |
| Earnings Per Share: | |
| Basic | \$ (0.11) |
| Diluted | \$ (0.11) |

NOTE 21 - SUBSEQUENT EVENTS

On July 16, and August 9, 2007, the cash payment of \$450,000 and \$429,007 due to the McCue Shareholders for the second payment of the acquisition was made.

On July 2, 2007, the Company received the balance due of \$250,000 due for the private placement of its common shares on June 29, 2007(see Note 13). The shares for this private placement were issued on July 3, 2007.

On July 9, 2007, the dividend payable of \$77,640 to preferred shareholders (see Note 10) was made through the issuance of 48,956 shares of the Company's common stock.

On July 4, 2007, the Company entered into a debt agreement with AMZ Bank in Lahore, Pakistan for a total of \$2,457,642. The loan is collateralized by approximately 4,000,000 shares the Company owns in its Pakistan subsidiary, PK Tech. Finance costs associated with this debt totaled \$39,445 and the Company received a net balance of \$2,418,197. The loan has a maturity of three months and an interest rate based on the Karachi Interbank Offer Rate (KIBOR) plus 5%. At July 4, 2007 the KIBOR rate was 9.58%.

In July 2007, the Company's subsidiary, NetSol UK, entered into an agreement with HSBC Bank whereby the line of credit outstanding of £500,000 was converted into a note payable with a maturity of three years. The interest rate is 7.75% with monthly payments of £15,610 or approximately \$31,280.

In July 2007, one of the preferred shareholders converted 74 shares of preferred stock into 44,848 shares of the Company's common stock.

In July 2007, the Company repaid the note payable to Sir Noon, principle and interest of \$565,045 (see Note 9).

EXHIBIT 3.6

AMENDMENT TO ARTICLES OF INCORPORATION
DATED OCTOBER 18, 2006



DEAN HELLER
Secretary of State
204 North Carson Street, Suite 1
Carson City, Nevada 89701-4299
(775) 684-6708
Website: secretaryofstate.biz

Entity #:
C5490-1997
Document Number:
20060670162-80

Date Filed:
10/18/2006 1:51:15 PM
In the office of:

Dean Heller
Secretary of State

Certificate of Amendment
(PURSUANT TO NRS 78.385 and 78.390)

Certificate of Amendment to Articles of Incorporation
For Nevada Profit Corporations

(Pursuant to NRS 78.385 and 78.390 - After Issuance of Stock)

1. Name of corporation:

NetSol Technologies, Inc.

2. The articles have been amended as follows (provide article numbers, if available):

To add the following to Section 3: "The board of directors of the Corporation (the "Board of Directors") is expressly authorized to provide for issuance of all or any shares of Preferred Stock in one or more series, and to fix for each such series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, option or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and express in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such series and as may be permitted by the Nevada Revised Statutes (as amended from time to time, the "NRS"), including, without limitation, the authority to provide that any such class or series may be: (i) subject to redemption at any time or time at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; (iv) entitled to vote separately or together with any other series or class of stock of the Corporation; or (v) convertible into, or exchangeable for, shares of any other class or classes of stock, or any other series of the same or any other classes of stock of the Corporation at such price or prices or at such rates of exchange or with such adjustments; all as may be stated in such resolution or resolutions."

3. The vote by which the stockholders holding shares in the corporation entitling them to exercise at least a majority of the voting power, or such greater proportion of the voting power as may be required in the case of a vote by classes or series, or as may be required by the provisions of the articles of incorporation have voted in favor of the amendment is: 8,905,792; 95.5% of voting shares

4. Effective date of filing (optional):

[must not be later than 90 days after the certificate is filed]

5. Officer Signature (required):

*If any proposed amendment would alter or change any preference or any relative or other right given to any class or series of outstanding shares, then the amendment must be approved by the vote, in addition to the affirmative vote otherwise required, of the holders of shares representing a majority of the voting power of each class or series affected by the amendment regardless of limitations or restrictions on the voting power thereof.

IMPORTANT: Failure to include any of the above information and submit the proper fees may cause this filing to be rejected.

This form must be accompanied by appropriate fees.

Nevada Secretary of State AM 78.385 Amend 2003
Revised on: 09/20/05



EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of January 1, 2007 (the "Effective Date"), by and between NetSol Technologies, Inc., a Nevada corporation (the "Company") and Najeeb Ghauri, an individual ("Executive").

BACKGROUND

A. The Company desires assurance of the association and services of Executive in order to retain Executive's experience, skills, abilities, background and knowledge, and is willing to engage Executive's services on the terms and conditions set forth in this Agreement.

B. Executive desires to be in the employ of the Company, and is willing to accept such employment on the terms and conditions set forth in this Agreement.

AGREEMENT

In consideration of the foregoing recitals and the mutual promises and covenants herein contained, and for other good and valuable consideration, the parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT.

1.1 The Company hereby enters into this Agreement with Executive, and Executive hereby accepts employment under the terms and conditions set forth in this Agreement for a period of three years thereafter (the "Employment Period"); provided, however, that the Employment Period may be terminated earlier pursuant as provided herein. The Employment Period shall be automatically extended for additional one-year periods unless either party notifies the other in writing six months before the end of the anniversary year to elect not to so extend the Employment Period.

1.2 Executive shall serve as Chief Executive Officer ("CEO") of the Company. It is hereby contemplated that the Executive will have a seat on and act as Chairman of the Board of Directors.

1.3 Executive shall perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and which are normally associated with the position of CEO and consistent with the bylaws of the Company.

1.4 The employment relationship between the parties shall be governed by the policies and practices established by the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's policies or practices, this Agreement shall control.

1.5 Unless the parties otherwise agree in writing, during the term of this Agreement, Executive shall perform the services he is required to perform pursuant to this Agreement at the Company's offices, located at its present or future locations in the United States; provided, further, that the Company may from time to time require Executive to travel temporarily to other locations in connection with the Company's business and in accordance with the Company's standard policies regarding travel for executive and senior management employees.

2. LOYAL AND CONSCIENTIOUS PERFORMANCE; NONCOMPETITION.

2.1 During the Employment Period, Executive shall devote substantially all his business energies, interest, abilities and productive time to the proper and efficient performance of his duties under this Agreement. The foregoing shall not preclude Executive from engaging in civic, charitable or religious activities, or from serving on boards of directors of companies or organizations which will not present any direct conflict with the interest of the Company or affect the performance of Executive's duties hereunder.

2.2 Except with the prior written consent of the Company's Board of Directors ("Board"), Executive will comply with all the restrictions set forth below at all times during his employment and for a period of eighteen months after the termination of his employment:

2.2.1 Executive will not, either individually or in conjunction with any person, as principal, agent, director, officer, employee or in any other manner whatsoever, directly or indirectly engage in or become financially interested in any competitive business within North America, except as a passive investor holding not more than one percent of the publicly traded stock of a corporation in which Executive is not involved in management;

2.2.2 Executive will not, either directly or indirectly, on his own behalf or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate to any competitive business, any business or actively sought prospective business of the Company or any customers with whom the Company or any affiliate of the Company has current agreements relating to the business of the Company, or with whom Executive has dealt, or with whom Executive has supervised negotiations or business relations, or about whom Executive has acquired confidential information in the course of Executive's employment;

2.2.3 Executive will not, either directly or indirectly, on Executive's behalf or on behalf of others, solicit, divert or hire away, or attempt to solicit, divert, or hire away, any independent contractor or any person employed by the Company or any affiliate of the Company or persuade or attempt to persuade any such individual to terminate his or her employment with the Company; and,

2.2.4 Executive will not directly or indirectly impair or seek to impair the reputation of the Company or any affiliate of the Company, nor any relationship that the Company or any affiliate of the Company has with its employees, customers, suppliers, agents or other parties with which the Company or any other affiliate of the Company does business or has contractual relation; and,

2.2.5 Executive will not receive or accept for his own benefit, either directly or indirectly, any commission, rebate, discount, gratuity or profit from any person having or proposing to have one or more business transactions with the Company or any affiliate of the Company, without the prior approval of the Board, which may be withheld; and,

2.2.6 Executive will, during the term of this employment with the Company, communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding any subsequent termination of Executive's employment.

3. COMPENSATION OF EXECUTIVE.

3.1 The Company shall pay Executive a base salary of Two Hundred Seventy Five Thousand Dollars (\$275,000) per year (the "Base Salary"), payable in accordance with the Company policy. Such salary shall be pro rated for any partial year of employment on the basis of a 365-day fiscal year. Executive shall receive a car allowance of Three Thousand Dollars (\$3,000) per month. Executive will be eligible for bonuses from time to time as determined by the Board.

3.2 Executive's Base Salary and other compensation may be changed from time to time by mutual agreement of Executive and the Board.

3.3 All of Executive's compensation shall be subject to customary withholding taxes and any other employment taxes applicable to Executive's jurisdiction of employment as are commonly required to be collected or withheld by the Company.

3.4 During the Employment Period, the Company agrees to reimburse Executive for all reasonable and necessary business expenses subject to the Company's standard requirements with respect to reporting and documentation of such expenses.

3.5 Executive shall, in accordance with the Company policy and the terms of the applicable plan documents, be eligible to participate in benefits under any Executive benefit plan or arrangement which may be in effect from time to time and made available to its executive or key management employees, including, as applicable, health and disability insurance, dental insurance, and participation in Employer's 401(k) plan. The Company may modify or cancel its benefit plan(s) as it deems necessary.

3.6 Executive shall cooperate with the Company and its insurers as reasonably required for the Company to acquire and keep in force key-man life insurance on Executive.

3.7. The Company and Executive shall enter into an Indemnity Agreement to provide indemnification of and the advancing of expenses to Executive to the fullest extent (whether partial or complete) permitted by law, and, to the extent the Company maintains insurance, for the coverage of Executive under the Company's directors' and officers' liability insurance policies.

4. TERMINATION.

4.1 Termination by the Company. Executive's employment with the Company may be terminated under the following conditions:

4.1.1 Death or Disability. Executive's employment with the Company shall terminate effective upon the date of Executive's death or "Complete Disability" (as defined in Section 4.5.1).

4.1.2 For Cause. The Company may terminate Executive's employment under this Agreement for "Cause" (as defined in Section 4.5.3) by delivery of written notice to Executive specifying the cause or causes relied upon for such termination. Any notice of termination given pursuant to this Section 4.1.2 shall effect termination as of the date specified in such notice or, in the event no such date is specified, on the last day of the month in which such notice is delivered or deemed delivered as provided in Section 8 below.

4.1.3 Without Cause. The Company may terminate Executive's employment under this Agreement at any time and for any reason by delivery of written notice of such termination to Executive. Any notice of termination given pursuant to this Section 4.1.3 shall effect termination as of the date specified in such notice (which shall be no earlier than 30 days after such notice is given) or, in the event no such date is specified, on the last day of the month following the month in which such notice is delivered or deemed delivered as provided in Section 8 below.

4.2 Termination By Executive. Executive may terminate his employment with the Company for "Good Reason" (as defined below in Section 4.5.2) by (i) delivery of written notice to the Company specifying the "Good Reason" relied upon by Executive for such termination, provided that such notice is delivered within six (6) months following the occurrence of any event or events constituting Good Reason, or (ii) at any time during the Employment Period without Good Reason.

4.3 Termination by Mutual Agreement of the Parties. Executive's employment pursuant to this Agreement may be terminated at any time upon a mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

4.4 Compensation Upon Termination.

4.4.1 Death or Complete Disability. If Executive's employment shall be terminated by death or Complete Disability as provided in Section 4.4.1, the Company shall (i) pay Executive his accrued Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, and (ii) continue Executive's annual Base Salary, in effect at the time of termination, for a period of two (2) months after the termination date, in both cases subject to standard deductions and withholding, and the Company shall thereafter have no further obligations to Executive under this Agreement.

4.4.2 Cause or Without Good Reason. If Executive's employment shall be terminated by the Company for Cause, or if Executive terminates employment hereunder without Good Reason, the Company shall pay Executive his accrued Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of the notice of termination, and the Company shall thereafter have no further obligations to Executive under this Agreement.

4.4.3 Without Cause or Good Reason. If Executive shall terminate Executive's employment with the Company for Good Reason or the Company shall terminate Executive's employment without Cause, or in the event Executive is terminated for any reason following a Change in Control, Executive shall be entitled to the following:

(i) Executive's Base Salary, and accrued and unused vacation earned through the date of termination;

(ii) Continuation of Executive's annual Base Salary, in effect at the time of termination, for a period of thirty-six (36) months after the termination date subject to standard deductions and withholding;

(iii) Continuation of Executive's medical, disability and other benefits for a period of thirty six (36) months after the termination date, as if Executive had continued in employment during said period, or in lieu thereof, cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the benefit is being provided) under applicable law or regulation;

(iv) 100% vesting of all of Executive's Options, all other options granted to Executive and all restricted stock received upon early exercise; and,

(v) in the event such termination occurs after a Change of Control, the Company shall pay Executive: (a) a one-time payment equal to the product of 2.99 and Executive's salary for the previous twelve (12) months; (b) a one-time payment equal to the higher of (i) Executive's bonus for the previous year and (ii) one percent of the Company's consolidated gross revenues for the previous twelve (12) months; and, at the election of the Executive, (c) a one-time cash payment equal to the cash value of all shares eligible for exercise upon the exercise of Executive's Options then currently outstanding and exercisable as if they had been exercised in full (the "Change of Control Termination Payment"). In the event Executive elects to receive the cash value of the shares underlying Executive's options, he shall so notify the Company of his intent.

4.5 Definitions. As used herein, the following terms shall have the following meanings:

4.5.1 Complete Disability. "Complete Disability" shall mean the inability of Executive to perform Executive's duties under this Agreement because Executive has become permanently disabled within the meaning of any policy of disability income insurance covering employees of the Company then in force. In the event the Company has no policy of disability income insurance covering employees of the Company in force when Executive becomes disabled, the term "Complete Disability" shall mean the inability of Executive to perform Executive's duties under this Agreement by reason of any incapacity, physical or mental, which the Board, based upon medical advice or an opinion provided by a licensed physician acceptable to the Board, determines to have incapacitated Executive from satisfactorily performing all of Executive's usual services for the Company for a period of at least 120 days. Based upon such medical advice or opinion, the determination of the Board shall be final and binding and the date such determination is made shall be the date of such Complete Disability for purposes of this Agreement.

4.5.2 Good Reason. "Good Reason" shall be limited to the occurrence of any of the following events:

(i) If the Company is in material breach of any provision of this Agreement; or

(ii) If the Company asks Executive to perform any act which is illegal, including commission of any crime involving moral turpitude; or,

(iii) If there shall be a material diminution in Executive's position, status, offices, authority, duties or responsibilities as set forth in the Agreement; or

(iv) If there shall be a relocation or transfer of Executive's office to a location of more than 30 miles from Calabasas, California.

4.5.3 For Cause. "For Cause" shall be limited to the occurrence of any of the following events:

(i) Executive's engaging or in any manner participating in any activity which is directly competitive with or intentionally injurious to the Company or which violates any material provision of Section 6 hereof; or the use of alcohol or illegal drugs, materially interfering with the performance of Executive's obligations under this Agreement, continuing after written warning;

(ii) Executive's commission of any fraud against the Company or use or intentional appropriation for his personal use or benefit of any material funds or properties of the Company not authorized by the Board to be so used or appropriated;

(iii) Executive's conviction of any crime involving moral turpitude; or

(iv) Executive's failure or refusal to materially perform his duties and responsibilities set forth in this Agreement, if such failure or refusal is not cured within thirty (30) days after written notice thereof to Executive by the Company.

5. CHANGE IN CONTROL.

5.1 A "Change of Control" shall, for purposes of this Section mean: (1) a dissolution or liquidation of the Company; (2) any sale or transfer of more than 25% of the total assets of the Company; (3) any merger, consolidation or other business reorganization in which the holders of the Company's outstanding voting securities immediately prior to such transaction do not hold, immediately following such transaction, securities representing fifty percent (50%) or more of the combined voting power of the outstanding securities of the surviving entity; (4) the acquisition by any person (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of beneficial ownership (within the meaning of Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing fifty percent (50%) or more of the combined voting power of the then-outstanding securities of the Company; or (5) a majority of the incumbent Board of Directors has been changed.

5.2 If a Change In Control occurs, Executive shall be entitled to all benefits set forth in section .4.3 of this Agreement, including, but not limited to full acceleration of the vesting of the then-unvested portion of the Options granted to Executive (or any restricted shares received upon early exercise) and, continuance of Executive's medical, disability and other benefits for a period of thirty six (36) months, as if Executive had continued in employment during said period, or in lieu thereof, cash (including a tax equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the benefit is being provided) under applicable law or regulation; and any and all Change in Control Termination Payments..

5.3 Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, including, without limitation, the Change of Control Termination Payment, or otherwise (the "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), Executive shall be paid an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive after deduction of any excise tax imposed under Section 4999 of the Code, and any federal, state and local income and employment tax and excise tax imposed upon the Gross-Up Payment, and any interest and penalties imposed upon Executive, shall be equal to the Payment. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive's residence on the date of Payment, net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes.

5.4 All determinations to be made under Section 5.3 shall be made by the Company's independent public accountant (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and Executive within 10 days of the date of Payment. Any such determination by the Accounting Firm shall be binding upon the Company and Executive. Within five days after the Accounting Firm's determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of Executive such amounts as are then due to Executive.

5.5 In the event that upon any audit by the Internal Revenue Service, or by a state or local taxing authority, of the Payment or Gross-Up Payment, a change is finally determined to be required in the amount of taxes paid by Executive, appropriate adjustments shall be made under this Agreement such that the net amount which is payable to Executive after taking into account the provisions of Section 4999 of the Code shall reflect the intent of the parties as expressed in Section 5.3 above, in the manner determined by the Accounting Firm.

5.6 All of the fees and expenses of the Accounting Firm in performing the determinations referred to above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

6. CONFIDENTIAL AND PROPRIETARY INFORMATION

6.1 Executive recognizes that his employment with the Company will involve contact with information of substantial value to the Company, which is not old and generally known in the trade, and which gives the Company an advantage over its competitors who do not know or use it, including but not limited to, techniques, designs, drawings, processes, inventions, developments, equipment, prototypes, sales and customer information, and business and financial information relating to the business, products, practices and techniques of the Company, (hereinafter referred to as "Confidential and Proprietary Information"). Executive will at all times regard and preserve as confidential such Confidential and Proprietary Information obtained by Executive from whatever source and will not, either during his employment with the Company or thereafter, publish or disclose any part of such Confidential and Proprietary Information in any manner at any time, or use the same except on behalf of the Company, without the prior written consent of the Company.

7. ASSIGNMENT AND BINDING EFFECT.

7.1 This Agreement shall be binding upon and inure to the benefit of Executive and Executive's heirs, executors, personal representatives, assigns, administrators and legal representatives. Due to the unique and personal nature of Executive's duties under this Agreement, neither this Agreement nor any rights or obligations under this Agreement shall be assignable by Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place.

8. NOTICES.

8.1 All notices or demands of any kind required or permitted to be given by the Company or Executive under this Agreement shall be given in writing and shall be personally delivered (and receipted for) or mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

8.1.1 If to the Company:

NetSol Technologies, Inc.
23901 Calabasas Road, Suite 2072
Calabasas, CA 91302
Attn: General Counsel

8.1.2 If to Executive:

Najeeb Ghauri
c/o NetSol Technologies, Inc.
23901 Calabasas Road, Suite 2072
Calabasas, CA 91302

Any such written notice shall be deemed received when personally delivered or three (3) days after its deposit in the United States mail as specified above. Either party may change its address for notices by giving notice to the other party in the manner specified in this section.

9. TRADE SECRETS OF OTHERS.

9.1 It is the understanding of both the Company and Executive that Executive shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including Executive's former employers, nor shall the Company and/or its affiliates seek to elicit from Executive any such information. Consistent with the foregoing, Executive shall not provide to the Company and/or its affiliates, and the Company and/or its affiliates shall not request, any documents or copies of documents containing such information.

10. CHOICE OF LAW.

10.1 This Agreement is made in Calabasas, California. This Agreement shall be construed and interpreted in accordance with the laws of the State of California.

11. INTEGRATION.

11.1 This Agreement contains the complete, final and exclusive agreement of the parties relating to the subject matter of this Agreement, and supersedes all prior oral and written employment agreements or arrangements between the parties.

12. AMENDMENT.

12.1 This Agreement cannot be amended or modified except by a written agreement signed by Executive and the Company.

13. WAIVER.

13.1 No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the party against whom the waiver is claimed, and any waiver or any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

14. SEVERABILITY.

14.1 The finding by a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision which most accurately represents the parties' intention with respect to the invalid or unenforceable term or provision.

15. INTERPRETATION; CONSTRUCTION.

15.1 The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but Executive has been encouraged, and has consulted with, his own independent counsel and tax advisors with respect to the terms of this Agreement. The parties acknowledge that each party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

16. REPRESENTATIONS AND WARRANTIES.

16.1 Executive represents and warrants that he is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that his execution and performance of this Agreement will not violate or breach any other agreements between Executive and any other person or entity.

17. LITIGATION COSTS.

17.1 Should any litigation, arbitration, or administrative action be commenced between the parties or their personal representatives concerning any provision of this agreement or the rights and duties of any person in relation to this agreement, the party or parties prevailing in such action shall be entitled, in addition to such other relief as may be granted to a reasonable sum as and for that party's attorney's fees in such litigation which shall be determined by the court, arbitrator, or administrative agency, in such action or in a separate action brought for that purpose.

18. COUNTERPARTS.

18.1 This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall constitute one and the same instrument.

19. ARBITRATION.

19.1 To ensure rapid and economical resolution of any disputes which may arise under this Agreement, Executive and the Company agree that any and all disputes or controversies of any nature whatsoever, arising from or regarding the interpretation, performance, enforcement or breach of this Agreement shall be resolved by confidential, final and binding arbitration (rather than trial by jury or court or resolution in some other forum) to the fullest extent permitted by law. Any arbitration proceeding pursuant to this Agreement shall be conducted by the American Arbitration Association ("AAA") in Los Angeles under the then existing AAA arbitration rules. If for any reason all or part of this arbitration provision is held to be invalid, illegal, or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not effect any other portion of this arbitration provision or any other jurisdiction, but this provision will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable part or parts of this provision had never been contained herein, consistent with the general intent of the parties insofar as possible.

20. PAYMENTS. Any amount hereunder not paid when due shall be subject until paid to an interest charge equal to the lesser of (i) one-and-one-half percent of the amount due per month and (ii) the highest rate allowable by applicable law. The late-paying party shall pay all of the other party's costs and expenses (including reasonable attorney's fees) to collect any amount due.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

NETSOL TECHNOLOGIES, INC.

By: /s/ Patti L. W. McGlasson

Patti L. W. McGlasson

Its: Corporate Secretary

Dated: January 1, 2007

By: /s/ Tina Gilger

Tina Gilger

Its: Chief Financial Officer

Dated: January 1, 2007

EXECUTIVE:

 /s/ Najeeb Ghauri

NAJEEB GHAURI

Dated: January 1, 2007

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of January 1, 2007 (the "Effective Date"), by and between NetSol Technologies, Inc., a Nevada corporation (the "Company") and Naeem Ghauri, an individual ("Executive").

BACKGROUND

A. The Company desires assurance of the association and services of Executive in order to retain Executive's experience, skills, abilities, background and knowledge, and is willing to engage Executive's services on the terms and conditions set forth in this Agreement.

B. Executive desires to be in the employ of the Company, and is willing to accept such employment on the terms and conditions set forth in this Agreement.

AGREEMENT

In consideration of the foregoing recitals and the mutual promises and covenants herein contained, and for other good and valuable consideration, the parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT.

1.1 The Company hereby enters into this Agreement with Executive, and Executive hereby accepts employment under the terms and conditions set forth in this Agreement for a period of three years thereafter (the "Employment Period"); provided, however, that the Employment Period may be terminated earlier pursuant as provided herein. The Employment Period shall be automatically extended for additional one-year periods unless either party notifies the other in writing six months before the end of the anniversary year to elect not to extend the Employment Period.

1.2 Executive shall serve as President, Europe Region and Head of Global Products Group ("Officer") of the Company.

1.3 Executive shall perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and which are normally associated with the position of Officer and consistent with the bylaws of the Company.

1.4 The employment relationship between the parties shall be governed by the policies and practices established by the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's policies or practices, this Agreement shall control.

1.5 Unless the parties otherwise agree in writing, during the term of this Agreement, Executive shall perform the services he is required to perform pursuant to this Agreement at the Company's offices, located at its present or future locations in the United States; provided, further, that the Company may from time to time require Executive to travel temporarily to other locations in connection with the Company's business and in accordance with the Company's standard policies regarding travel for executive and senior management employees.

2. LOYAL AND CONSCIENTIOUS PERFORMANCE; NONCOMPETITION.

2.1 During the Employment Period, Executive shall devote substantially all his business energies, interest, abilities and productive time to the proper and efficient performance of his duties under this Agreement. The foregoing shall not preclude Executive from engaging in civic, charitable or religious activities, or from serving on boards of directors of companies or organizations which will not present any direct conflict with the interest of the Company or affect the performance of Executive's duties hereunder.

2.2 Except with the prior written consent of the Company's Board of Directors ("Board"), Executive will comply with all the restrictions set forth below at all times during his employment and for a period of eighteen months after the termination of his employment:

2.2.1 Executive will not, either individually or in conjunction with any person, as principal, agent, director, officer, employee or in any other manner whatsoever, directly or indirectly engage in or become financially interested in any competitive business within North America, except as a passive investor holding not more than one percent of the publicly traded stock of a corporation in which Executive is not involved in management;

2.2.2 Executive will not, either directly or indirectly, on his own behalf or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate to any competitive business, any business or actively sought prospective business of the Company or any customers with whom the Company or any affiliate of the Company has current agreements relating to the business of the Company, or with whom Executive has dealt, or with whom Executive has supervised negotiations or business relations, or about whom Executive has acquired confidential information in the course of Executive's employment;

2.2.3 Executive will not, either directly or indirectly, on Executive's behalf or on behalf of others, solicit, divert or hire away, or attempt to solicit, divert, or hire away, any independent contractor or any person employed by the Company or any affiliate of the Company or persuade or attempt to persuade any such individual to terminate his or her employment with the Company; and,

2.2.4 Executive will not directly or indirectly impair or seek to impair the reputation of the Company or any affiliate of the Company, nor any relationship that the Company or any affiliate of the Company has with its employees, customers, suppliers, agents or other parties with which the Company or any other affiliate of the Company does business or has contractual relation; and,

2.2.5 Executive will not receive or accept for his own benefit, either directly or indirectly, any commission, rebate, discount, gratuity or profit from any person having or proposing to have one or more business transactions with the Company or any affiliate of the Company, without the prior approval of the Board, which may be withheld; and,

2.2.6 Executive will, during the term of this employment with the Company, communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding any subsequent termination of Executive's employment.

3. COMPENSATION OF EXECUTIVE.

3.1 The Company shall pay Executive a base salary of Two Hundred Twenty-Five Thousand Dollars (\$225,000) per year (the "Base Salary"), payable in accordance with the Company policy. Executive shall receive a monthly car allowance of Two Thousand Dollars (\$2,000). Such salary shall be pro rated for any partial year of employment on the basis of a 365-day fiscal year. Executive will be eligible for bonuses from time to time as determined by the Board.

3.2 Executive's Base Salary and other compensation may be changed from time to time by mutual agreement of Executive and the Board.

3.3 All of Executive's compensation shall be subject to customary withholding taxes and any other employment taxes applicable to Executive's jurisdiction of employment as are commonly required to be collected or withheld by the Company.

3.4 During the Employment Period, the Company agrees to reimburse Executive for all reasonable and necessary business expenses subject to the Company's standard requirements with respect to reporting and documentation of such expenses.

3.5 Executive shall, in accordance with the Company policy and the terms of the applicable plan documents, be eligible to participate in benefits under any Executive benefit plan or arrangement which may be in effect from time to time and made available to its executive or key management employees, including, as applicable, health and disability insurance, dental insurance, and participation in Employer's 401(k) plan. The Company may modify or cancel its benefit plan(s) as it deems necessary.

3.6 Executive shall cooperate with the Company and its insurers as reasonably required for the Company to acquire and keep in force key-man life insurance on Executive.

3.7 The Company and Executive shall enter into an Indemnity Agreement to provide indemnification of and the advancing of expenses to Executive to the fullest extent (whether partial or complete) permitted by law, and, to the extent the Company maintains insurance, for the coverage of Executive under the Company's directors' and officers' liability insurance policies.

4. TERMINATION.

4.1 Termination by the Company. Executive's employment with the Company may be terminated under the following conditions:

4.1.1 Death or Disability. Executive's employment with the Company shall terminate effective upon the date of Executive's death or "Complete Disability" (as defined in Section 4.5.1).

4.1.2 For Cause. The Company may terminate Executive's employment under this Agreement for "Cause" (as defined in Section 4.5.3) by delivery of written notice to Executive specifying the cause or causes relied upon for such termination. Any notice of termination given pursuant to this Section 4.1.2 shall effect termination as of the date specified in such notice or, in the event no such date is specified, on the last day of the month in which such notice is delivered or deemed delivered as provided in Section 8 below.

4.1.3 Without Cause. The Company may terminate Executive's employment under this Agreement at any time and for any reason by delivery of written notice of such termination to Executive. Any notice of termination given pursuant to this Section 4.1.3 shall effect termination as of the date specified in such notice (which shall be no earlier than 30 days after such notice is given) or, in the event no such date is specified, on the last day of the month following the month in which such notice is delivered or deemed delivered as provided in Section 8 below

4.2 Termination By Executive. Executive may terminate his employment with the Company for "Good Reason" (as defined below in Section 4.5.2) by (i) delivery of written notice to the Company specifying the "Good Reason" relied upon by Executive for such termination, provided that such notice is delivered within six (6) months following the occurrence of any event or events constituting Good Reason, or (ii) at any time during the Employment Period without Good Reason.

4.3 Termination by Mutual Agreement of the Parties. Executive's employment pursuant to this Agreement may be terminated at any time upon a mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

4.4 Compensation Upon Termination.

4.4.1 Death or Complete Disability. If Executive's employment shall be terminated by death or Complete Disability as provided in Section 4.4.1, the Company shall (i) pay Executive his accrued Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, and (ii) continue Executive's annual Base Salary, in effect at the time of termination, for a period of two (2) months after the termination date, in both cases subject to standard deductions and withholding, and the Company shall thereafter have no further obligations to Executive under this Agreement.

4.4.2 Cause or Without Good Reason. If Executive's employment shall be terminated by the Company for Cause, or if Executive terminates employment hereunder without Good Reason, the Company shall pay Executive his accrued Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of the notice of termination, and the Company shall thereafter have no further obligations to Executive under this Agreement.

4.4.3 Without Cause or Good Reason. If Executive shall terminate Executive's employment with the Company for Good Reason or the Company shall terminate Executive's employment without Cause, or in the event Executive is terminated for any reason following a Change in Control, Executive shall be entitled to the following:

(i) Executive's Base Salary, and accrued and unused vacation earned through the date of termination;

(ii) Continuation of Executive's annual Base Salary, in effect at the time of termination, for a period of thirty-six (36) months after the termination date subject to standard deductions and withholding;

(iii) Continuation of Executive's medical, disability and other benefits for a period of thirty six (36) months after the termination date, as if Executive had continued in employment during said period, or in lieu thereof, cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the benefit is being provided) under applicable law or regulation;

(iv) 100% vesting of all of Executive's Options, all other options granted to Executive and all restricted stock received upon early exercise; and,

(v) in the event such termination occurs after a Change in Control, the Company shall pay Executive (a) a one-time payment equal to the product of 2.99 and Executive's salary for the previous twelve (12) months and (b) a one-time payment equal to the higher of (i) Executive's bonus for the previous year and (ii) one percent of the Company's consolidated gross revenues for the previous twelve (12) months; and, at the election of the Executive, (c) a one-time cash payment equal to the cash value of all shares eligible for exercise upon the exercise of Executive's Options then currently outstanding and exercisable as if they had been exercised in full (the "Change of Control Termination Payment"). In the event Executive elects to receive the cash value of the shares underlying Executive's options, he shall so notify the Company of his intent.

4.5 Definitions. As used herein, the following terms shall have the following meanings:

4.5.1 Complete Disability. "Complete Disability" shall mean the inability of Executive to perform Executive's duties under this Agreement because Executive has become permanently disabled within the meaning of any policy of disability income insurance covering employees of the Company then in force. In the event the Company has no policy of disability income insurance covering employees of the Company in force when Executive becomes disabled, the term "Complete Disability" shall mean the inability of Executive to perform Executive's duties under this Agreement by reason of any incapacity, physical or mental, which the Board, based upon medical advice or an opinion provided by a licensed physician acceptable to the Board, determines to have incapacitated Executive from satisfactorily performing all of Executive's usual services for the Company for a period of at least 120 days. Based upon such medical advice or opinion, the determination of the Board shall be final and binding and the date such determination is made shall be the date of such Complete Disability for purposes of this Agreement.

4.5.2 Good Reason. "Good Reason" shall be limited to the occurrence of any of the following events:

- (i) If the Company is in material breach of any provision of this Agreement; or
- (ii) If the Company asks Executive to perform any act which is illegal, including commission of any crime involving moral turpitude; or,
- (iii) If there shall be a material diminution in Executive's position, status, offices, authority, duties or responsibilities as set forth in the Agreement; or
- (iv) If there shall be a relocation or transfer of Executive's office to a location of more than 30 miles from Calabasas, California.

4.5.3 For Cause. "For Cause" shall be limited to the occurrence of any of the following events:

- (i) Executive's engaging or in any manner participating in any activity which is directly competitive with or intentionally injurious to the Company or which violates any material provision of Section 6 hereof; or the use of alcohol or illegal drugs, materially interfering with the performance of Executive's obligations under this Agreement, continuing after written warning;
- (ii) Executive's commission of any fraud against the Company or use or intentional appropriation for his personal use or benefit of any material funds or properties of the Company not authorized by the Board to be so used or appropriated;
- (iii) Executive's conviction of any crime involving moral turpitude; or
- (iv) Executive's failure or refusal to materially perform his duties and responsibilities set forth in this Agreement, if such failure or refusal is not cured within thirty (30) days after written notice thereof to Executive by the Company.

5. CHANGE IN CONTROL.

5.1 A "Change of Control" shall, for purposes of this Section mean: (1) a dissolution or liquidation of the Company; (2) any sale or transfer of more than 25% of the total assets of the Company; (3) any merger, consolidation or other business reorganization in which the holders of the Company's outstanding voting securities immediately prior to such transaction do not hold, immediately following such transaction, securities representing fifty percent (50%) or more of the combined voting power of the outstanding securities of the surviving entity; (4) the acquisition by any person (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of beneficial ownership (within the meaning of Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing fifty percent (50%) or more of the combined voting power of the then-outstanding securities of the Company; or (5) a majority of the incumbent Board of Directors has been changed.

5.2 If a Change In Control occurs, Executive shall be entitled to all benefits set forth in section .4.3 of this Agreement, including, but not limited to full acceleration of the vesting of the then-unvested portion of the Options granted to Executive (or any restricted shares received upon early exercise) and, continuance of Executive's medical, disability and other benefits for a period of thirty six (36) months, as if Executive had continued in employment during said period, or in lieu thereof, cash (including a tax equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the benefit is being provided) under applicable law or regulation; and any and all Change in Control Termination Payments..

5.3 Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, including, without limitation, the Change of Control Termination Payment, or otherwise (the "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), Executive shall be paid an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive after deduction of any excise tax imposed under Section 4999 of the Code, and any federal, state and local income and employment tax and excise tax imposed upon the Gross-Up Payment, and any interest and penalties imposed upon Executive, shall be equal to the Payment. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive's residence on the date of Payment, net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes.

5.4 All determinations to be made under Section 5.3 shall be made by the Company's independent public accountant (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and Executive within 10 days of the date of Payment. Any such determination by the Accounting Firm shall be binding upon the Company and Executive. Within five days after the Accounting Firm's determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of Executive such amounts as are then due to Executive.

5.5 In the event that upon any audit by the Internal Revenue Service, or by a state or local taxing authority, of the Payment or Gross-Up Payment, a change is finally determined to be required in the amount of taxes paid by Executive, appropriate adjustments shall be made under this Agreement such that the net amount which is payable to Executive after taking into account the provisions of Section 4999 of the Code shall reflect the intent of the parties as expressed in Section 5.3 above, in the manner determined by the Accounting Firm.

5.6 All of the fees and expenses of the Accounting Firm in performing the determinations referred to above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

6. CONFIDENTIAL AND PROPRIETARY INFORMATION

6.1 Executive recognizes that his employment with the Company will involve contact with information of substantial value to the Company, which is not old and generally known in the trade, and which gives the Company an advantage over its competitors who do not know or use it, including but not limited to, techniques, designs, drawings, processes, inventions, developments, equipment, prototypes, sales and customer information, and business and financial information relating to the business, products, practices and techniques of the Company, (hereinafter referred to as "Confidential and Proprietary Information"). Executive will at all times regard and preserve as confidential such Confidential and Proprietary Information obtained by Executive from whatever source and will not, either during his employment with the Company or thereafter, publish or disclose any part of such Confidential and Proprietary Information in any manner at any time, or use the same except on behalf of the Company, without the prior written consent of the Company.

7. ASSIGNMENT AND BINDING EFFECT.

7.1 This Agreement shall be binding upon and inure to the benefit of Executive and Executive's heirs, executors, personal representatives, assigns, administrators and legal representatives. Due to the unique and personal nature of Executive's duties under this Agreement, neither this Agreement nor any rights or obligations under this Agreement shall be assignable by Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place.

8. NOTICES.

8.1 All notices or demands of any kind required or permitted to be given by the Company or Executive under this Agreement shall be given in writing and shall be personally delivered (and receipted for) or mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

8.1.1 If to the Company:

NetSol Technologies, Inc.
23901 Calabasas Road, Suite 2072
Calabasas, CA 91302
Attn: General Counsel

8.1.2 If to Executive:

Naeem Ghauri
c/o NetSol CQ
Planet House
North Heath Lane
Horsham, West Sussex
United Kingdom

Any such written notice shall be deemed received when personally delivered or three (3) days after its deposit in the United States mail as specified above. Either party may change its address for notices by giving notice to the other party in the manner specified in this section.

9. TRADE SECRETS OF OTHERS.

9.1 It is the understanding of both the Company and Executive that Executive shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including Executive's former employers, nor shall the Company and/or its affiliates seek to elicit from Executive any such information. Consistent with the foregoing, Executive shall not provide to the Company and/or its affiliates, and the Company and/or its affiliates shall not request, any documents or copies of documents containing such information.

10. CHOICE OF LAW.

10.1 This Agreement is made in Calabasas, California. This Agreement shall be construed and interpreted in accordance with the laws of the State of California.

11. INTEGRATION.

11.1 This Agreement contains the complete, final and exclusive agreement of the parties relating to the subject matter of this Agreement, and supersedes all prior oral and written employment agreements or arrangements between the parties.

12. AMENDMENT.

12.1 This Agreement cannot be amended or modified except by a written agreement signed by Executive and the Company.

13. WAIVER.

13.1 No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the party against whom the waiver is claimed, and any waiver or any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

14. SEVERABILITY.

14.1 The finding by a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision which most accurately represents the parties' intention with respect to the invalid or unenforceable term or provision.

15. INTERPRETATION; CONSTRUCTION.

15.1 The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but Executive has been encouraged, and has consulted with, his own independent counsel and tax advisors with respect to the terms of this Agreement. The parties acknowledge that each party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

16. REPRESENTATIONS AND WARRANTIES.

16.1 Executive represents and warrants that he is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that his execution and performance of this Agreement will not violate or breach any other agreements between Executive and any other person or entity.

17. LITIGATION COSTS.

17.1 Should any litigation, arbitration, or administrative action be commenced between the parties or their personal representatives concerning any provision of this agreement or the rights and duties of any person in relation to this agreement, the party or parties prevailing in such action shall be entitled, in addition to such other relief as may be granted to a reasonable sum as and for that party's attorney's fees in such litigation which shall be determined by the court, arbitrator, or administrative agency, in such action or in a separate action brought for that purpose.

18. COUNTERPARTS.

18.1 This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall constitute one and the same instrument.

19. ARBITRATION.

19.1 To ensure rapid and economical resolution of any disputes which may arise under this Agreement, Executive and the Company agree that any and all disputes or controversies of any nature whatsoever, arising from or regarding the interpretation, performance, enforcement or breach of this Agreement shall be resolved by confidential, final and binding arbitration (rather than trial by jury or court or resolution in some other forum) to the fullest extent permitted by law. Any arbitration proceeding pursuant to this Agreement shall be conducted by the American Arbitration Association ("AAA") in Los Angeles under the then existing AAA arbitration rules. If for any reason all or part of this arbitration provision is held to be invalid, illegal, or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not effect any other portion of this arbitration provision or any other jurisdiction, but this provision will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable part or parts of this provision had never been contained herein, consistent with the general intent of the parties insofar as possible.

20. PAYMENTS. Any amount hereunder not paid when due shall be subject until paid to an interest charge equal to the lesser of (i) one-and-one-half percent of the amount due per month and (ii) the highest rate allowable by applicable law. The late-paying party shall pay all of the other party's costs and expenses (including reasonable attorney's fees) to collect any amount due.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

NETSOL TECHNOLOGIES, INC.

By: /s/ Patti L. W. McGlasson

By: /s/ Najeeb Ghauri

Patti L. W. McGlasson

Najeeb Ghauri

Its: Corporate Secretary

Its: Chief Executive Officer

Dated: January 1, 2007

Dated: January 1, 2007

EXECUTIVE:

/s/ Naeem Ghauri

NAEEM GHOURI

Dated: January 1, 2007

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of January 1, 2007 (the "Effective Date"), by and between NetSol Technologies, Inc., a Nevada corporation (the "Company") and Salim Ghauri, an individual ("Executive").

BACKGROUND

A. The Company desires assurance of the association and services of Executive in order to retain Executive's experience, skills, abilities, background and knowledge, and is willing to engage Executive's services on the terms and conditions set forth in this Agreement.

B. Executive desires to be in the employ of the Company, and is willing to accept such employment on the terms and conditions set forth in this Agreement.

AGREEMENT

In consideration of the foregoing recitals and the mutual promises and covenants herein contained, and for other good and valuable consideration, the parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT.

1.1 The Company hereby enters into this Agreement with Executive, and Executive hereby accepts employment under the terms and conditions set forth in this Agreement for a period of three years thereafter (the "Employment Period"); provided, however, that the Employment Period may be terminated earlier pursuant as provided herein. The Employment Period shall be automatically extended for additional one-year periods unless either party notifies the other in writing six months before the end of the anniversary year to elect not to so extend the Employment Period.

1.2 Executive shall serve as President, Asia Pacific Region and Head of Global Services Group ("Officer") of the Company.

1.3 Executive shall perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and which are normally associated with the position of Officer and consistent with the bylaws of the Company.

1.4 The employment relationship between the parties shall be governed by the policies and practices established by the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's policies or practices, this Agreement shall control.

1.5 Unless the parties otherwise agree in writing, during the term of this Agreement, Executive shall perform the services he is required to perform pursuant to this Agreement at the Company's offices, located at its present or future locations in the United States; provided, further, that the Company may from time to time require Executive to travel temporarily to other locations in connection with the Company's business and in accordance with the Company's standard policies regarding travel for executive and senior management employees.

2. LOYAL AND CONSCIENTIOUS PERFORMANCE; NONCOMPETITION.

2.1 During the Employment Period, Executive shall devote substantially all his business energies, interest, abilities and productive time to the proper and efficient performance of his duties under this Agreement. The foregoing shall not preclude Executive from engaging in civic, charitable or religious activities, or from serving on boards of directors of companies or organizations which will not present any direct conflict with the interest of the Company or affect the performance of Executive's duties hereunder.

2.2 Except with the prior written consent of the Company's Board of Directors ("Board"), Executive will comply with all the restrictions set forth below at all times during his employment and for a period of eighteen months after the termination of his employment:

2.2.1 Executive will not, either individually or in conjunction with any person, as principal, agent, director, officer, employee or in any other manner whatsoever, directly or indirectly engage in or become financially interested in any competitive business within North America, except as a passive investor holding not more than one percent of the publicly traded stock of a corporation in which Executive is not involved in management;

2.2.2 Executive will not, either directly or indirectly, on his own behalf or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate to any competitive business, any business or actively sought prospective business of the Company or any customers with whom the Company or any affiliate of the Company has current agreements relating to the business of the Company, or with whom Executive has dealt, or with whom Executive has supervised negotiations or business relations, or about whom Executive has acquired confidential information in the course of Executive's employment;

2.2.3 Executive will not, either directly or indirectly, on Executive's behalf or on behalf of others, solicit, divert or hire away, or attempt to solicit, divert, or hire away, any independent contractor or any person employed by the Company or any affiliate of the Company or persuade or attempt to persuade any such individual to terminate his or her employment with the Company; and,

2.2.4 Executive will not directly or indirectly impair or seek to impair the reputation of the Company or any affiliate of the Company, nor any relationship that the Company or any affiliate of the Company has with its employees, customers, suppliers, agents or other parties with which the Company or any other affiliate of the Company does business or has contractual relation; and,

2.2.5 Executive will not receive or accept for his own benefit, either directly or indirectly, any commission, rebate, discount, gratuity or profit from any person having or proposing to have one or more business transactions with the Company or any affiliate of the Company, without the prior approval of the Board, which may be withheld; and,

2.2.6 Executive will, during the term of this employment with the Company, communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding any subsequent termination of Executive's employment.

3. COMPENSATION OF EXECUTIVE.

3.1 The Company shall pay Executive a base salary of One Hundred Seventy Five Thousand Dollars (\$175,000) per year (the "Base Salary"), payable in accordance with the Company policy. Such salary shall be pro rated for any partial year of employment on the basis of a 365-day fiscal year. Executive will be eligible for bonuses from time to time as determined by the Board.

3.2 Executive's Base Salary and other compensation may be changed from time to time by mutual agreement of Executive and the Board.

3.3 All of Executive's compensation shall be subject to customary withholding taxes and any other employment taxes applicable to Executive's jurisdiction of employment as are commonly required to be collected or withheld by the Company.

3.4 During the Employment Period, the Company agrees to reimburse Executive for all reasonable and necessary business expenses subject to the Company's standard requirements with respect to reporting and documentation of such expenses.

3.5 Executive shall, in accordance with the Company policy and the terms of the applicable plan documents, be eligible to participate in benefits under any Executive benefit plan or arrangement which may be in effect from time to time and made available to its executive or key management employees, including, as applicable, health and disability insurance, dental insurance, and participation in Employer's 401(k) plan. The Company may modify or cancel its benefit plan(s) as it deems necessary.

3.6 Executive shall cooperate with the Company and its insurers as reasonably required for the Company to acquire and keep in force key-man life insurance on Executive.

3.7 The Company and Executive shall enter into an Indemnity Agreement to provide indemnification of and the advancing of expenses to Executive to the fullest extent (whether partial or complete) permitted by law, and, to the extent the Company maintains insurance, for the coverage of Executive under the Company's directors' and officers' liability insurance policies.

4. TERMINATION.

4.1 Termination by the Company. Executive's employment with the Company may be terminated under the following conditions:

4.1.1 Death or Disability. Executive's employment with the Company shall terminate effective upon the date of Executive's death or "Complete Disability" (as defined in Section 4.5.1).

4.1.2 For Cause. The Company may terminate Executive's employment under this Agreement for "Cause" (as defined in Section 4.5.3) by delivery of written notice to Executive specifying the cause or causes relied upon for such termination. Any notice of termination given pursuant to this Section 4.1.2 shall effect termination as of the date specified in such notice or, in the event no such date is specified, on the last day of the month in which such notice is delivered or deemed delivered as provided in Section 8 below.

4.1.3 Without Cause. The Company may terminate Executive's employment under this Agreement at any time and for any reason by delivery of written notice of such termination to Executive. Any notice of termination given pursuant to this Section 4.1.3 shall effect termination as of the date specified in such notice (which shall be no earlier than 30 days after such notice is given) or, in the event no such date is specified, on the last day of the month following the month in which such notice is delivered or deemed delivered as provided in Section 8 below.

4.2 Termination By Executive. Executive may terminate his employment with the Company for "Good Reason" (as defined below in Section 4.5.2) by (i) delivery of written notice to the Company specifying the "Good Reason" relied upon by Executive for such termination, provided that such notice is delivered within six (6) months following the occurrence of any event or events constituting Good Reason, or (ii) at any time during the Employment Period without Good Reason.

4.3 Termination by Mutual Agreement of the Parties. Executive's employment pursuant to this Agreement may be terminated at any time upon a mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

4.4 Compensation Upon Termination.

4.4.1 Death or Complete Disability. If Executive's employment shall be terminated by death or Complete Disability as provided in Section 4.4.1, the Company shall (i) pay Executive his accrued Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, and (ii) continue Executive's annual Base Salary, in effect at the time of termination, for a period of two (2) months after the termination date, in both cases subject to standard deductions and withholding, and the Company shall thereafter have no further obligations to Executive under this Agreement.

4.4.2 Cause or Without Good Reason. If Executive's employment shall be terminated by the Company for Cause, or if Executive terminates employment hereunder without Good Reason, the Company shall pay Executive his accrued Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of the notice of termination, and the Company shall thereafter have no further obligations to Executive under this Agreement.

4.4.3 Without Cause or Good Reason. If Executive shall terminate Executive's employment with the Company for Good Reason or the Company shall terminate Executive's employment without Cause, or in the event Executive is terminated, for any reason, following a Change in Control, Executive shall be entitled to the following:

(i) Executive's Base Salary, and accrued and unused vacation earned through the date of termination;

(ii) Continuation of Executive's annual Base Salary, in effect at the time of termination, for a period of thirty-six (36) months after the termination date subject to standard deductions and withholding;

(iii) Continuation of Executive's medical, disability and other benefits for a period of thirty six (36) months after the termination date, as if Executive had continued in employment during said period, or in lieu thereof, cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the benefit is being provided) under applicable law or regulation;

(iv) 100% vesting of all of Executive's Options, all other options granted to Executive and all restricted stock received upon early exercise; and,

(v) in the event such termination occurs after a Change of Control, the Company shall pay Executive (a) a one-time payment equal to the product of 2.99 and Executive's salary for the previous twelve (12) months and (b) a one-time payment equal to the higher of (i) Executive's bonus for the previous year and (ii) one percent of the Company's consolidated gross revenues for the previous twelve (12) months; and, at the election of the Executive, (c) a one-time cash payment equal to the cash value of all shares eligible for exercise upon the exercise of Executive's Options then currently outstanding and exercisable as if they had been exercised in full (the "Change of Control Termination Payment"). In the event Executive elects to receive the cash value of the shares underlying Executive's options, he shall so notify the Company of his intent.

4.5 Definitions. As used herein, the following terms shall have the following meanings:

4.5.1 Complete Disability. "Complete Disability" shall mean the inability of Executive to perform Executive's duties under this Agreement because Executive has become permanently disabled within the meaning of any policy of disability income insurance covering employees of the Company then in force. In the event the Company has no policy of disability income insurance covering employees of the Company in force when Executive becomes disabled, the term "Complete Disability" shall mean the inability of Executive to perform Executive's duties under this Agreement by reason of any incapacity, physical or mental, which the Board, based upon medical advice or an opinion provided by a licensed physician acceptable to the Board, determines to have incapacitated Executive from satisfactorily performing all of Executive's usual services for the Company for a period of at least 120 days. Based upon such medical advice or opinion, the determination of the Board shall be final and binding and the date such determination is made shall be the date of such Complete Disability for purposes of this Agreement.

4.5.2 Good Reason. "Good Reason" shall be limited to the occurrence of any of the following events:

(i) If the Company is in material breach of any provision of this Agreement; or

(ii) If the Company asks Executive to perform any act which is illegal, including commission of any crime involving moral turpitude; or,

(iii) If there shall be a material diminution in Executive's position, status, offices, authority, duties or responsibilities as set forth in the Agreement; or

(iv) If there shall be a relocation or transfer of Executive's office to a location of more than 30 miles from Calabasas, California.

4.5.3 For Cause. "For Cause" shall be limited to the occurrence of any of the following events:

(i) Executive's engaging or in any manner participating in any activity which is directly competitive with or intentionally injurious to the Company or which violates any material provision of Section 6 hereof; or the use of alcohol or illegal drugs, materially interfering with the performance of Executive's obligations under this Agreement, continuing after written warning;

(ii) Executive's commission of any fraud against the Company or use or intentional appropriation for his personal use or benefit of any material funds or properties of the Company not authorized by the Board to be so used or appropriated;

(iii) Executive's conviction of any crime involving moral turpitude; or

(iv) Executive's failure or refusal to materially perform his duties and responsibilities set forth in this Agreement, if such failure or refusal is not cured within thirty (30) days after written notice thereof to Executive by the Company.

5. CHANGE IN CONTROL.

5.1 A "Change of Control" shall, for purposes of this Section mean: (1) a dissolution or liquidation of the Company; (2) any sale or transfer of more than 25% of the total assets of the Company; (3) any merger, consolidation or other business reorganization in which the holders of the Company's outstanding voting securities immediately prior to such transaction do not hold, immediately following such transaction, securities representing fifty percent (50%) or more of the combined voting power of the outstanding securities of the surviving entity; (4) the acquisition by any person (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of beneficial ownership (within the meaning of Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing fifty percent (50%) or more of the combined voting power of the then-outstanding securities of the Company; or (5) a majority of the incumbent Board of Directors has been changed.

5.2 If a Change In Control occurs, Executive shall be entitled to all benefits set forth in section .4.3 of this Agreement, including, but not limited to full acceleration of the vesting of the then-unvested portion of the Options granted to Executive (or any restricted shares received upon early exercise) and, continuance of Executive's medical, disability and other benefits for a period of thirty six (36) months, as if Executive had continued in employment during said period, or in lieu thereof, cash (including a tax equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the benefit is being provided) under applicable law or regulation; and any and all Change in Control Termination Payments..

5.3 Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, including, without limitation, the Change of Control Termination Payment, or otherwise (the "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), Executive shall be paid an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive after deduction of any excise tax imposed under Section 4999 of the Code, and any federal, state and local income and employment tax and excise tax imposed upon the Gross-Up Payment, and any interest and penalties imposed upon Executive, shall be equal to the Payment. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive's residence on the date of Payment, net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes.

5.4 All determinations to be made under Section 5.3 shall be made by the Company's independent public accountant (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and Executive within 10 days of the date of Payment. Any such determination by the Accounting Firm shall be binding upon the Company and Executive. Within five days after the Accounting Firm's determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of Executive such amounts as are then due to Executive.

5.5 In the event that upon any audit by the Internal Revenue Service, or by a state or local taxing authority, of the Payment or Gross-Up Payment, a change is finally determined to be required in the amount of taxes paid by Executive, appropriate adjustments shall be made under this Agreement such that the net amount which is payable to Executive after taking into account the provisions of Section 4999 of the Code shall reflect the intent of the parties as expressed in Section 5.3 above, in the manner determined by the Accounting Firm.

5.6 All of the fees and expenses of the Accounting Firm in performing the determinations referred to above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

6. CONFIDENTIAL AND PROPRIETARY INFORMATION

6.1 Executive recognizes that his employment with the Company will involve contact with information of substantial value to the Company, which is not old and generally known in the trade, and which gives the Company an advantage over its competitors who do not know or use it, including but not limited to, techniques, designs, drawings, processes, inventions, developments, equipment, prototypes, sales and customer information, and business and financial information relating to the business, products, practices and techniques of the Company, (hereinafter referred to as "Confidential and Proprietary Information"). Executive will at all times regard and preserve as confidential such Confidential and Proprietary Information obtained by Executive from whatever source and will not, either during his employment with the Company or thereafter, publish or disclose any part of such Confidential and Proprietary Information in any manner at any time, or use the same except on behalf of the Company, without the prior written consent of the Company.

7. ASSIGNMENT AND BINDING EFFECT.

7.1 This Agreement shall be binding upon and inure to the benefit of Executive and Executive's heirs, executors, personal representatives, assigns, administrators and legal representatives. Due to the unique and personal nature of Executive's duties under this Agreement, neither this Agreement nor any rights or obligations under this Agreement shall be assignable by Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place.

8. NOTICES.

8.1 All notices or demands of any kind required or permitted to be given by the Company or Executive under this Agreement shall be given in writing and shall be personally delivered (and receipted for) or mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

8.1.1 If to the Company:

NetSol Technologies, Inc.
23901 Calabasas Road, Suite 2072
Calabasas, CA 91302
Attn: General Counsel

8.1.2 If to Executive:

Salim Ghauri
c/o NetSol Technologies, Ltd.
NetSol IT Village
NetSol Avenue, Ghazi Road
Lahore, Pakistan

Any such written notice shall be deemed received when personally delivered or three (3) days after its deposit in the United States mail as specified above. Either party may change its address for notices by giving notice to the other party in the manner specified in this section.

9. TRADE SECRETS OF OTHERS.

9.1 It is the understanding of both the Company and Executive that Executive shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including Executive's former employers, nor shall the Company and/or its affiliates seek to elicit from Executive any such information. Consistent with the foregoing, Executive shall not provide to the Company and/or its affiliates, and the Company and/or its affiliates shall not request, any documents or copies of documents containing such information.

10. CHOICE OF LAW.

10.1 This Agreement is made in Calabasas, California. This Agreement shall be construed and interpreted in accordance with the laws of the State of California.

11. INTEGRATION.

11.1 This Agreement contains the complete, final and exclusive agreement of the parties relating to the subject matter of this Agreement, and supersedes all prior oral and written employment agreements or arrangements between the parties.

12. AMENDMENT.

12.1 This Agreement cannot be amended or modified except by a written agreement signed by Executive and the Company.

13. WAIVER.

13.1 No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the party against whom the waiver is claimed, and any waiver or any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

14. SEVERABILITY.

14.1 The finding by a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision which most accurately represents the parties' intention with respect to the invalid or unenforceable term or provision.

15. INTERPRETATION; CONSTRUCTION.

15.1 The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but Executive has been encouraged, and has consulted with, his own independent counsel and tax advisors with respect to the terms of this Agreement. The parties acknowledge that each party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

16. REPRESENTATIONS AND WARRANTIES.

16.1 Executive represents and warrants that he is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that his execution and performance of this Agreement will not violate or breach any other agreements between Executive and any other person or entity.

17. LITIGATION COSTS.

17.1 Should any litigation, arbitration, or administrative action be commenced between the parties or their personal representatives concerning any provision of this agreement or the rights and duties of any person in relation to this agreement, the party or parties prevailing in such action shall be entitled, in addition to such other relief as may be granted to a reasonable sum as and for that party's attorney's fees in such litigation which shall be determined by the court, arbitrator, or administrative agency, in such action or in a separate action brought for that purpose.

18. COUNTERPARTS.

18.1 This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall constitute one and the same instrument.

19. ARBITRATION.

19.1 To ensure rapid and economical resolution of any disputes which may arise under this Agreement, Executive and the Company agree that any and all disputes or controversies of any nature whatsoever, arising from or regarding the interpretation, performance, enforcement or breach of this Agreement shall be resolved by confidential, final and binding arbitration (rather than trial by jury or court or resolution in some other forum) to the fullest extent permitted by law. Any arbitration proceeding pursuant to this Agreement shall be conducted by the American Arbitration Association ("AAA") in Los Angeles under the then existing AAA arbitration rules. If for any reason all or part of this arbitration provision is held to be invalid, illegal, or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not effect any other portion of this arbitration provision or any other jurisdiction, but this provision will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable part or parts of this provision had never been contained herein, consistent with the general intent of the parties insofar as possible.

20. PAYMENTS. Any amount hereunder not paid when due shall be subject until paid to an interest charge equal to the lesser of (i) one-and-one-half percent of the amount due per month and (ii) the highest rate allowable by applicable law. The late-paying party shall pay all of the other party's costs and expenses (including reasonable attorney's fees) to collect any amount due.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

NETSOL TECHNOLOGIES, INC.

By: /s/ Patti L. W. McGlasson
Patti L. W. McGlasson

Its: Corporate Secretary

Dated: January 1, 2007

By: /s/ Najeeb Ghauri
Najeeb Ghauri

Its: Chief Executive Officer

Dated: January 1, 2007

EXECUTIVE:

 /s/ Salim Ghauri
SALIM GHOURI

Dated: January 1, 2007

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of August 1, 2007 (the "Effective Date"), by and between NetSol Technologies, Inc., a Nevada corporation (the "Company") and Tina Gilger, an individual ("Executive").

BACKGROUND

A. The Company desires assurance of the association and services of Executive in order to retain Executive's experience, skills, abilities, background and knowledge, and is willing to engage Executive's services on the terms and conditions set forth in this Agreement.

B. Executive desires to be in the employ of the Company, and is willing to accept such employment on the terms and conditions set forth in this Agreement.

AGREEMENT

In consideration of the foregoing recitals and the mutual promises and covenants herein contained, and for other good and valuable consideration, the parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT.

1.1 The Company hereby enters into this Agreement with Executive, and Executive hereby accepts employment under the terms and conditions set forth in this Agreement for a period of one year thereafter (the "Employment Period"); provided, however, that the Employment Period may be terminated earlier pursuant as provided herein. The Employment Period shall be automatically extended for additional thirty day periods unless either party notifies the other in writing two weeks before the end of the term to elect not to so extend the Employment Period.

1.2 Executive shall serve as Chief Financial Officer of the Company.

1.3 Executive shall perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and which are normally associated with the position of Chief Financial Officer and consistent with the bylaws and policies, including, but not limited to the committee charters and Code of Ethics of the Company.

1.4 The employment relationship between the parties shall be governed by the policies and practices established by the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's policies or practices, this Agreement shall control.

1.5 Unless the parties otherwise agree in writing, during the term of this Agreement, Executive shall perform the services she is required to perform pursuant to this Agreement at the Company's offices, located at its present or future locations in the State of California; provided, further, that the Company may from time to time require Executive to travel temporarily to other locations in connection with the Company's business and in accordance with the Company's standard policies regarding travel for executive and senior management employees.

2. LOYAL AND CONSCIENTIOUS PERFORMANCE; NONCOMPETITION.

2.1 During the Employment Period, Executive shall devote substantially all her business energies, interest, abilities and productive time to the proper and efficient performance of her duties under this Agreement. The foregoing shall not preclude Executive from engaging in civic, charitable or religious activities, or from serving on boards of directors of companies or organizations which will not present any direct conflict with the interest of the Company or affect the performance of Executive's duties hereunder.

2.2 Except with the prior written consent of the Company's Board of Directors ("Board"), Executive will comply with all the restrictions set forth below at all times during her employment:

2.2.1 Executive will not, either individually or in conjunction with any person, as principal, agent, director, officer, employee or in any other manner whatsoever, directly or indirectly engage in or become financially interested in any competitive business within North America, except as a passive investor holding not more than one percent of the publicly traded stock of a corporation in which Executive is not involved in management;

2.2.2 Executive will not, either directly or indirectly, on his own behalf or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate to any competitive business, any business or actively sought prospective business of the Company or any customers with whom the Company or any affiliate of the Company has current agreements relating to the business of the Company, or with whom Executive has dealt, or with whom Executive has supervised negotiations or business relations, or about whom Executive has acquired confidential information in the course of Executive's employment;

2.2.3 Executive will not, either directly or indirectly, on Executive's behalf or on behalf of others, solicit, divert or hire away, or attempt to solicit, divert, or hire away, any independent contractor or any person employed by the Company or any affiliate of the Company or persuade or attempt to persuade any such individual to terminate his or her employment with the Company; and,

2.2.4 Executive will not directly or indirectly impair or seek to impair the reputation of the Company or any affiliate of the Company, nor any relationship that the Company or any affiliate of the Company has with its employees, customers, suppliers, agents or other parties with which the Company or any other affiliate of the Company does business or has contractual relation; and,

2.2.5 Executive will not receive or accept for her own benefit, either directly or indirectly, any commission, rebate, discount, gratuity or profit from any person having or proposing to have one or more business transactions with the Company or any affiliate of the Company, without the prior approval of the Board, which may be withheld; and,

2.2.6 Executive will, during the term of this employment with the Company, communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding any subsequent termination of Executive's employment.

3. COMPENSATION OF EXECUTIVE.

3.1 The Company shall pay Executive a base salary of One Hundred Thirty-Two Thousand Dollars (\$132,000) per year (the "Base Salary"), payable in accordance with the Company policy. Such salary shall be pro rated for any partial year of employment on the basis of a 365-day fiscal year. Executive will be eligible for bonuses from time to time as determined by the Board.

3.2 Executive's Base Salary and other compensation may be changed from time to time by mutual agreement of Executive and the Board and shall be evaluated on an at least annual basis by the Board of Director's Compensation Committee.

3.3 All of Executive's compensation shall be subject to customary withholding taxes and any other employment taxes applicable to Executive's jurisdiction of employment as are commonly required to be collected or withheld by the Company.

3.4 During the Employment Period, the Company agrees to reimburse Executive for all reasonable and necessary business expenses subject to the Company's standard requirements with respect to reporting and documentation of such expenses.

3.5 Executive shall, in accordance with the Company policy and the terms of the applicable plan documents, be eligible to participate in benefits under any Executive benefit plan or arrangement which may be in effect from time to time and made available to its executive or key management employees, including, as applicable, health and disability insurance, dental insurance, and participation in Employer's 401(k) plan. The Company may modify or cancel its benefit plan(s) as it deems necessary.

3.6 Executive shall receive the standard vacation of 2 weeks per annum.

3.7 Executive shall be granted stock options for 10,000 shares of the common stock of the Company (the "Options") pursuant to an option agreement (the "Option Agreement") issued pursuant to the Company's 2005 Employee Stock Option Plan at the exercise price of \$1.60 (based on the board approval date of July 23, 2007) of which all options vest immediately. The Option Agreement will have customary provisions relating to adjustments for stock splits and similar events. The Options as granted shall permit Executive (or, where applicable, his personal representative) up to eighteen (18) months following termination of employment for any reason to exercise any options which were vested at the time of such termination (including options vesting as the result of such termination, where applicable).

3.8 The Company and Executive shall enter into an Indemnity Agreement to provide indemnification of and the advancing of expenses to Executive to the fullest extent (whether partial or complete) permitted by law, and, to the extent the Company maintains insurance, for the coverage of Executive under the Company's directors' and officers' liability insurance policies.

4. TERMINATION.

4.1 Termination by the Company. Executive's employment with the Company may be terminated under the following conditions:

4.1.1 Death or Disability. Executive's employment with the Company shall terminate effective upon the date of Executive's death or "Complete Disability" (as defined in Section 4.5.1).

4.1.2 For Cause. The Company may terminate Executive's employment under this Agreement for "Cause" (as defined in Section 4.5.3) by delivery of written notice to Executive specifying the cause or causes relied upon for such termination. Any notice of termination given pursuant to this Section 4.1.2 shall effect termination as of the date specified in such notice or, in the event no such date is specified, on the last day of the month in which such notice is delivered or deemed delivered as provided in Section 8 below.

4.1.3 Without Cause. The Company may terminate Executive's employment under this Agreement at any time and for any reason by delivery of written notice of such termination to Executive. Any notice of termination given pursuant to this Section 4.1.4 shall effect termination as of the date specified in such notice (which shall be no earlier than 30 days after such notice is given) or, in the event no such date is specified, on the last day of the month following the month in which such notice is delivered or deemed delivered as provided in Section 8 below.

4.2 Termination By Executive. Executive may terminate her employment with the Company for "Good Reason" (as defined below in Section 4.5.2) by (i) delivery of written notice to the Company specifying the "Good Reason" relied upon by Executive for such termination, provided that such notice is delivered within six (6) months following the occurrence of any event or events constituting Good Reason, or (ii) at any time during the Employment Period without Good Reason.

4.3 Termination by Mutual Agreement of the Parties. Executive's employment pursuant to this Agreement may be terminated at any time upon a mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

4.4 Compensation Upon Termination.

4.4.1 Death or Complete Disability. If Executive's employment shall be terminated by death or Complete Disability as provided in Section 4.4.1, the Company shall (i) pay Executive her accrued Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, and (ii) continue Executive's annual Base Salary, in effect at the time of termination, for a period of two (2) months after the termination date, in both cases subject to standard deductions and withholding, and the Company shall thereafter have no further obligations to Executive under this Agreement.

4.4.2 Cause or Without Good Reason. If Executive's employment shall be terminated by the Company for Cause, or if Executive terminates employment hereunder without Good Reason, the Company shall pay Executive her accrued Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of the notice of termination, and the Company shall thereafter have no further obligations to Executive under this Agreement.

4.4.3 Without Cause or Good Reason. If Executive shall terminate Executive's employment with the Company without Good Reason or the Company shall terminate Executive's employment without Cause, Executive shall be entitled to the following:

(i) Executive's Base Salary, and accrued and unused vacation earned through the date of termination;

(ii) Continuation of Executive's annual Base Salary, in effect at the time of termination, for a period of six (6) months after the termination date subject to standard deductions and withholding;

(iii) Continuation of Executive's medical, disability and other benefits for a period of six (6) months after the termination date, as if Executive had continued in employment during said period, or in lieu thereof, cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the benefit is being provided) under applicable law or regulation; and,

(iv) 100% vesting of all of Executive's Options, all other options granted to Executive and all restricted stock received upon early exercise.

(v) in the event such termination occurs within twelve (12) months after a Change of Control, the Company shall pay Executive (a) a one-time payment equal to the product of 2.99 and Executive's salary for the previous six (6) months and (b) a one-time payment equal to the higher of (i) Executive's bonus for the previous year and (ii) one-half a percent of the Company's consolidated gross revenues for the previous six (6) months (the "Change of Control Termination Payment").

4.5 Definitions. As used herein, the following terms shall have the following meanings:

4.5.1 Complete Disability. "Complete Disability" shall mean the inability of Executive to perform Executive's duties under this Agreement because Executive has become permanently disabled within the meaning of any policy of disability income insurance covering employees of the Company then in force. In the event the Company has no policy of disability income insurance covering employees of the Company in force when Executive becomes disabled, the term "Complete Disability" shall mean the inability of Executive to perform Executive's duties under this Agreement by reason of any incapacity, physical or mental, which the Board, based upon medical advice or an opinion provided by a licensed physician acceptable to the Board, determines to have incapacitated Executive from satisfactorily performing all of Executive's usual services for the Company for a period of at least 120 days. Based upon such medical advice or opinion, the determination of the Board shall be final and binding and the date such determination is made shall be the date of such Complete Disability for purposes of this Agreement.

4.5.2 Good Reason. "Good Reason" shall be limited to the occurrence of any of the following events:

(i) If the Company is in material breach of any provision of this Agreement; or

(ii) If the Company asks Executive to perform any act which is illegal, including commission of any crime involving moral turpitude; or,

(iii) If there shall be a material diminution in Executive's position, status, offices, authority, duties or responsibilities as set forth in the Agreement.

4.5.3 For Cause. "For Cause" shall be limited to the occurrence of any of the following events:

(i) Executive's engaging or in any manner participating in any activity which is directly competitive with or intentionally injurious to the Company or which violates any material provision of Section 6 hereof; or the use of alcohol or illegal drugs, materially interfering with the performance of Executive's obligations under this Agreement, continuing after written warning;

(ii) Executive's commission of any fraud against the Company or use or intentional appropriation for his personal use or benefit of any material funds or properties of the Company not authorized by the Board to be so used or appropriated;

(iii) Executive's conviction of any crime involving moral turpitude; or

(iv) Executive's failure or refusal to materially perform her duties and responsibilities set forth in this Agreement, if such failure or refusal is not cured within two weeks after written notice thereof to Executive by the Company.

5. CHANGE IN CONTROL.

5.1 A "Change of Control" shall, for purposes of this Section mean: (1) a dissolution or liquidation of the Company; (2) any sale or transfer of more than 25% of the total assets of the Company; (3) any merger, consolidation or other business reorganization in which the holders of the Company's outstanding voting securities immediately prior to such transaction do not hold, immediately following such transaction, securities representing fifty percent (50%) or more of the combined voting power of the outstanding securities of the surviving entity; (4) the acquisition by any person (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of beneficial ownership (within the meaning of Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing fifty percent (50%) or more of the combined voting power of the then-outstanding securities of the Company; or (5) a majority of the incumbent Board of Directors has been changed.

5.2 If a Change In Control occurs, Executive shall be entitled to full acceleration of the vesting of the then-unvested portion of the Options granted to Executive under Section 3.9 hereof and of any other options granted to Executive (or any restricted shares received upon early exercise). If Executive is terminated due to a Change In Control, Executive's medical, disability and other benefits shall continue for a period of six (6) months, as if Executive had continued in employment during said period, or in lieu thereof, cash (including a tax equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued (or where such continuation would adversely affect the tax status of the plan pursuant to which the benefit is being provided) under applicable law or regulation.

5.3 Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, including, without limitation, the Change of Control Termination Payment, or otherwise (the "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), Executive shall be paid an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive after deduction of any excise tax imposed under Section 4999 of the Code, and any federal, state and local income and employment tax and excise tax imposed upon the Gross-Up Payment, and any interest and penalties imposed upon Executive, shall be equal to the Payment. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive's residence on the date of Payment, net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes.

5.4 All determinations to be made under Section 5.3 shall be made by the Company's independent public accountant (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and Executive within 10 days of the date of Payment. Any such determination by the Accounting Firm shall be binding upon the Company and Executive. Within five days after the Accounting Firm's determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of Executive such amounts as are then due to Executive.

5.5 In the event that upon any audit by the Internal Revenue Service, or by a state or local taxing authority, of the Payment or Gross-Up Payment, a change is finally determined to be required in the amount of taxes paid by Executive, appropriate adjustments shall be made under this Agreement such that the net amount which is payable to Executive after taking into account the provisions of Section 4999 of the Code shall reflect the intent of the parties as expressed in Section 5.3 above, in the manner determined by the Accounting Firm.

5.6 All of the fees and expenses of the Accounting Firm in performing the determinations referred to above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

6. CONFIDENTIAL AND PROPRIETARY INFORMATION

6.1 Executive recognizes that his employment with the Company will involve contact with information of substantial value to the Company, which is not old and generally known in the trade, and which gives the Company an advantage over its competitors who do not know or use it, including but not limited to, techniques, designs, drawings, processes, inventions, developments, equipment, prototypes, sales and customer information, and business and financial information relating to the business, products, practices and techniques of the Company, (hereinafter referred to as "Confidential and Proprietary Information"). Executive will at all times regard and preserve as confidential such Confidential and Proprietary Information obtained by Executive from whatever source and will not, either during his employment with the Company or thereafter, publish or disclose any part of such Confidential and Proprietary Information in any manner at any time, or use the same except on behalf of the Company, without the prior written consent of the Company.

7. ASSIGNMENT AND BINDING EFFECT.

7.1 This Agreement shall be binding upon and inure to the benefit of Executive and Executive's heirs, executors, personal representatives, assigns, administrators and legal representatives. Due to the unique and personal nature of Executive's duties under this Agreement, neither this Agreement nor any rights or obligations under this Agreement shall be assignable by Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place.

8. NOTICES.

8.1 All notices or demands of any kind required or permitted to be given by the Company or Executive under this Agreement shall be given in writing and shall be personally delivered (and received for) or mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

8.1.1 If to the Company:

NetSol Technologies, Inc.
23091 Calabasas Road, 2072
Calabasas, CA 91302
Attn: Chairman

8.1.2 If to Executive:

Tina Gilger
c/o NetSol Technologies, Inc.
23901 Calabasas Road, 2072
Calabasas, CA 91302

Any such written notice shall be deemed received when personally delivered or three (3) days after its deposit in the United States mail as specified above. Either party may change its address for notices by giving notice to the other party in the manner specified in this section.

9. TRADE SECRETS OF OTHERS.

9.1 It is the understanding of both the Company and Executive that Executive shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including Executive's former employers, nor shall the Company and/or its affiliates seek to elicit from Executive any such information. Consistent with the foregoing, Executive shall not provide to the Company and/or its affiliates, and the Company and/or its affiliates shall not request, any documents or copies of documents containing such information.

10. CHOICE OF LAW.

10.1 This Agreement is made in Calabasas, California. This Agreement shall be construed and interpreted in accordance with the laws of the State of California.

11. INTEGRATION.

11.1 This Agreement contains the complete, final and exclusive agreement of the parties relating to the subject matter of this Agreement, and supersedes all prior oral and written employment agreements or arrangements between the parties.

12. AMENDMENT.

12.1 This Agreement cannot be amended or modified except by a written agreement signed by Executive and the Company.

13. WAIVER.

13.1 No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the party against whom the waiver is claimed, and any waiver or any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

14. SEVERABILITY.

14.1 The finding by a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision which most accurately represents the parties' intention with respect to the invalid or unenforceable term or provision.

15. INTERPRETATION; CONSTRUCTION.

15.1 The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but Executive has been encouraged, and has consulted with, his own independent counsel and tax advisors with respect to the terms of this Agreement. The parties acknowledge that each party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

16. REPRESENTATIONS AND WARRANTIES.

16.1 Executive represents and warrants that he is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that his execution and performance of this Agreement will not violate or breach any other agreements between Executive and any other person or entity.

17. LITIGATION COSTS.

17.1 Should any litigation, arbitration, or administrative action be commenced between the parties or their personal representatives concerning any provision of this agreement or the rights and duties of any person in relation to this agreement, the party or parties prevailing in such action shall be entitled, in addition to such other relief as may be granted to a reasonable sum as and for that party's attorney's fees in such litigation which shall be determined by the court, arbitrator, or administrative agency, in such action or in a separate action brought for that purpose.

18. COUNTERPARTS.

18.1 This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall constitute one and the same instrument.

19. ARBITRATION.

19.1 To ensure rapid and economical resolution of any disputes which may arise under this Agreement, Executive and the Company agree that any and all disputes or controversies of any nature whatsoever, arising from or regarding the interpretation, performance, enforcement or breach of this Agreement shall be resolved by confidential, final and binding arbitration (rather than trial by jury or court or resolution in some other forum) to the fullest extent permitted by law. Any arbitration proceeding pursuant to this Agreement shall be conducted by the American Arbitration Association ("AAA") in Los Angeles under the then existing AAA arbitration rules. If for any reason all or part of this arbitration provision is held to be invalid, illegal, or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not effect any other portion of this arbitration provision or any other jurisdiction, but this provision will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable part or parts of this provision had never been contained herein, consistent with the general intent of the parties insofar as possible.

20. PAYMENTS. Any amount hereunder not paid when due shall be subject until paid to an interest charge equal to the lesser of (i) one-and-one-half percent of the amount due per month and (ii) the highest rate allowable by applicable law. The late-paying party shall pay all of the other party's costs and expenses (including reasonable attorney's fees) to collect any amount due.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

NETSOL TECHNOLOGIES, INC.

By: /s/ Najeeb Ghauri

Najeeb Ghauri
Its: Chief Executive Officer

EXECUTIVE:

/s/ Tina Gilger

Tina Gilger

Dated: September 18, 2007

Amendment No. Seven to Lease
McCue Systems, Inc.

This Amendment, dated June 25, 2007, is by and between SeaBreeze I Venture ("Lessor") and McCue Systems, Inc. ("Lessee"). Lessor and Lessee entered into a lease agreement dated January 11, 1988, for the premises known as Suite 310 at Ill Anza Boulevard, Burlingame, California. Such Lease was amended per the terms of Amendments One, Two, Three, Four, Five and Six, and is now further amended as follows:

Premises: **Effective July 1, 2007**
Suite 310 – Shall be reduced from 9,553 rentable square feet to 8,089 rentable square feet.

Termination Date: June 30, 2009

Base Rent Schedule: July 1, 2007 \$16,178.00 per month / \$2.00 per s.f.
July 1, 2008 \$16,582.00 per month / \$2.05 per s.f.

Improvements: Lessor, at Lessor's sole cost, agrees to provide the following improvements to Suite 310:

- Paint entire premises, work to be done after-hours
- Construct demising wall to reduce size of premises
- Construct one perimeter conference room, in accordance with the attached plans marked as Exhibit A.
- Provide complete carpet cleaning throughout the premises.

Security Deposit: Security Deposit shall be reduced from \$40,805.00 to \$16,394.00. SeaBreeze I Venture will refund \$24,411.00 to McCue Systems

Base Year: Per Paragraph 4 of the Lease, the Base Year shall be changed to 2007.

All other terms and conditions of the Lease, as amended, shall remain unchanged.

AGREED & ACCEPTED:

LESSOR:

SeaBreeze I Venture

Date: _____

LESSEE:

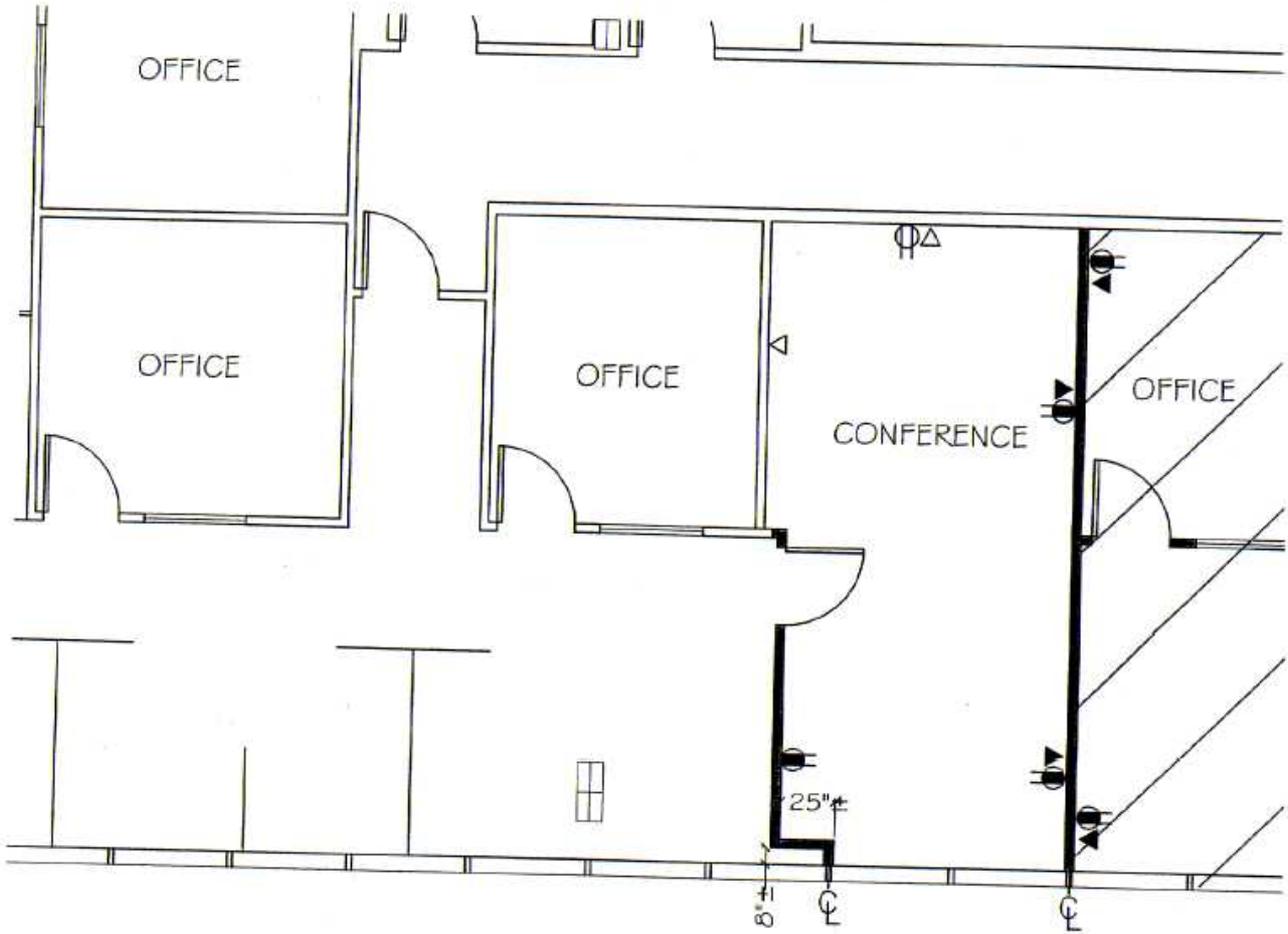
McCue Systems, Inc.

Date: _____

EXHIBIT A

SeaBreeze I Venture "Lessor"
and
McCue Systems, Inc. "Lessee"

Page One of Two



INITIAL

EXHIBIT A

SeaBreeze I Venture "Lessor"
and
McCue Systems, Inc. "Lessee"

Page Two of Two



111 ANZA BLVD., BURLINGAME
SUITE 310 - MCQUE SYSTEMS
6-11-07

- 1 PROVIDE NEW BUILDING STANDARD CONSTRUCTION WHERE SHOWN
- 2 PROVIDE NEW 3'-0" WIDE INTERIOR DOOR WITH TEMPERED GLASS FULL PANEL, HEIGHT & FINISH TO MATCH BUILDING STANDARD, W/ ADA APPROVED BUILDING STANDARD LEVER HARWARE
- 3 PROVIDE FOR RELOCATION EXISTING DOOR AND GLASS TO NEW LOCATION AS SHOWN
- 4 NEW CONSTRUCITION TO JOG AT WINDOW LINE WITH MINIMAL DIMENSION BUT TO ALLOW SERVICING AND ACCESS TO EXTERIOR GLASS FOR CLEANING & TO WINDOW BLINDS
- 5 PROVIDE NEW ELECTRICAL OUTLET & COMMUNICATION OUTLETS WITH RING & STRING WHERE SHOWN
- 6 WHERE DEMO OCCURS PROVIDE FOR ALL AREAS TO BE PATCHED, REPAIRED & FINISHED TO MATCH EXISTING ADJACENT SURFACES



Beijing Lucky Goldstar Building Development Co., Ltd.

And

NetSol Technologies Ltd.

For

Unit 03, 15th Floor, West Tower of Twin Towers

Tenancy Agreement



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Landlord: Beijing Lucky Goldstar Building Development Co., Ltd.
Legal Address: 7th Floor, West Tower, B12 Jianguomenwai Dajie, Chao Yang District, Beijing, P.R.China.
Post Code: 100022
Authorized Representative: Pakh Yuhn Sihk Position: General Manager
Telephone: 5120 8000 Fax: 5120 8050

Tenant: NetSol Technologies Ltd.

Legal Address: NetSol IT Village, NetSol Avenue, Main Ghazi Road
Lahore Cantt. 54792, Pakistan

Business License:

Post Code:

Authorised Representative: Paul Grace Position: NetSol Technologies
Representative in China
Telephone: 0092 42 111 44 8800 Fax: 0092 42 572 6740

This Tenancy Agreement (hereinafter referred to as "the Agreement") is made between the parties this 29 day of June 2007 after consultation and the parties agree on the following terms unanimously:

ARTICLE 1: PURPOSE AND SCOPE OF TENANCY

- Clause 1: The Tenant agrees to take and the Landlord agrees to let the premises situate at Unit [03], [15th] Floor, West Tower of Twin Towers, No. B12, Jianguomenwai Avenue, Chaoyang District, Beijing, People's Republic of China (hereinafter referred to as "the Premises") as the Tenant's office.
Total floor area of the Premises is 131.23 sq.m. The Floor Plan of the Premises is set forth in Annex I of this Agreement. (Annex I refers to a floor plan and the location of the Premises is marked and colored thereon. The plan is for reference only.)
- Clause 2: The Landlord shall deliver the Premises to the Tenant in accordance with "The condition of the Premises when being delivered to the Tenant" as stated in Annex II of this Agreement. The Tenant shall recognize it by signing on the Landlord's notice after examination on the entrance day.
- Clause 3: The Tenant shall have the right to use the common areas as prescribed by the Landlord together with others equally. Such common areas shall include the elevators, public corridors, toilets, main lobby and other common facilities.
- Clause 4: The Tenant shall use Premises as an office premises only.

ARTICLE 2: LEASE

- Clause 1: The Lease will be two(2) Years, commencing from August 15, 2007 and expiring on August 14, 2009. The Lease shall



commence on August 15, 2007.

Clause 2: The period commencing on July 1, 2007 and expiring on August 14, 2007 shall be the Fitting-out Period. There shall be no Rental for the Fitting-out Period but the Tenant shall pay the Management Fees and other actual expenses incurred in fitting out the Premises during the said period.

ARTICLE 3: RENTAL

Clause 1: The Landlord shall collect Rental from the commencement date of the tenancy as stated in this Agreement.

Clause 2: The Rental of the Premises shall be calculated on the basis of calendar month. The monthly Rental of the initial lease term for the Premises shall be RMB 28,680.32. For the months of the first and last Rental payments within the Lease, the amount of the Rental shall be calculated by reference to the aggregate number of days the Premises being actually rented to the Tenant for those months in proportion to the Rental for the whole month. The Rent shall be paid into the account designated by the Landlord in RMB; if the Tenant chooses to pay the Rent in Dollar, the amount actually receipt in the target account of the Landlord shall be deemed as the payment by the Tenant.

Clause 3: The Rental shall be pre-paid on or before the 5th working day of each calendar month. The Rental for the first month of the tenancy under this Agreement shall be paid at the time when the Premises is formally delivered for use.



Clause 4: The Tenant shall punctually pay the Rental and Other Charges which have become due in accordance with the way and time prescribed by this Agreement. The Tenant shall pay overdue fine to the Landlord according to the number of days of delay in payment and the overdue fine shall be calculated at the daily rate of 0.6% of the payable amount.

ARTICLE 4: MANAGEMENT FEES AND CAR-PARKING SPACE

Clause 1: Management Fees shall be RMB 31.45 per square meter, per calendar month, totaling RMB 4,127.18 per month and shall pay with the Rental. The Management Fees shall include all contributions towards the cost for and in providing central air-conditioning, maintaining environmental hygiene of the Building, installing and maintaining common facilities, providing water electricity and communication services for use in the common areas, Property All Risks Insurance, Machinery Breakdown Insurance and Public Liability Insurance, remuneration and other benefits for security guards and any other building services provided by the Landlord. The Landlord shall be entitled to revise the Management Fees periodically due to the increase of operation cost and any readjustment of the Management Fees, if any, shall be notified in writing to the Tenant and shall take effect from next month of the date specified in such notice.

Clause 2: The Property Management Company shall have the right to decide the commencement date and termination date for the supply of heating and cooling. During the period of supply, the time of supply shall be from 8:00 am to 6:00 pm from Monday to



Friday. There shall be no supply on Saturday, Sunday and National statutory holidays. If the Tenant wants to prolong the time for the supply of heating or air-conditioning, he must make prior application to the Property Management Company and pay the extra heating or air-conditioning charges.

Clause 3: Mechanical car-parking spaces in basement 4 at a monthly rental of RMB900 (inclusive of RMB200 property management fee) per space. Regular car-parking spaces in basement 4 at a monthly rental of RMB1200 (inclusive of RMB200 property management fee) per space.

ARTICLE 5: OTHER CHARGES

The Tenant shall pay all utilities connections at and in the Premises according to the installed sub-meters or the account book produced by the Landlord inclusive of guarantee and electricity. All fees and charges including car-parking, telephone services, internet, telecommunication services, extra heating or air-conditioning charges in the Premises and other services payable by the Tenant shall be paid in the Terms and Conditions in the Services Directory.

ARTICLE 6: GUARANTEE

Clause 1: The Guarantee shall be RMB98,422.50 (The amount shall be adjusted pursuant to provisions under Article 4 Clause 1 in this Agreement). The Tenant shall pay to the Landlord RMB32,807.50 within 7 days of the signing of the Letter of Offer,

and shall pay to the Landlord RMB65,615.00 within 7 days of signing of this Agreement, as the Guarantee to secure the due performance of the terms of this Agreement on the part of the Tenant.

Clause 2: If the Tenant breaches any provision of this Agreement, the Landlord shall be entitled to request for performance of the Agreement by the Tenant. If after request the Tenant still fails to perform his obligations under this Agreement, the Landlord shall be entitled to forfeit the whole or part of the Guarantee to compensate his loss. If the Guarantee shall become less than the amount as prescribed under Clause 1 of this Article after the Landlord has used the Guarantee to pay the amount due by the Tenant in accordance with this Agreement, the Tenant shall upon receipt of notice from the Landlord forthwith pay such amount as may be sufficient to make up the deficiency of the Guarantee. If the Tenant fails to make up the Guarantee within 15 working days after receipt of written notice from the Landlord, the Landlord shall have the right to terminate this Agreement.

Clause 3: In case this Lease expires in accordance with this Lease the Tenant shall:

1. Be in full compliance with all the terms of this Agreement; or the Tenant has paid the compensation to the Landlord as a result of his breach of the relevant provisions of this Agreement causing the earlier termination of the tenancy;
2. return the Landlord's equipment and facilities in the Premises in clean and good condition to the Landlord;
3. remove, when moving out of the Premises, voluntarily any remodification and newly added fixture to the Premises during

the period of lease and restore the Premises to its original state, unless the landlord has agreed in writing to keep them.

Within 30 working days after the Tenant implements the obligations stipulated above, the Landlord shall return the Guarantee to the Tenant without paying any interest.

Clause 4: The Tenant shall not assign or mortgage the Guarantee and shall not use the Guarantee to offset the Rental or Other Charges which have become due.

Clause 5: If there shall be any change of the Landlord within the period of tenancy, the rights and obligations over the Guarantee paid by the Tenant or the balance of the Guarantee left after the Landlord has exercised his right of deduction in accordance with this Agreement shall be fully taken up by the new Landlord.

Clause 6: If there shall be any increase in the Property Management Fees within the Lease, the Tenant shall within 15 working days after receipt of written notice from the Landlord make up the deficiency of the Guarantee. At any time during the Lease, the Guarantee shall be equivalent to the aggregate amount of 3 months' Rental and Management Fees at the time.

Clause 7: If the Tenant shall fail to pay the Guarantee in accordance with the provisions of this Article, the Landlord shall have the right to terminate this Agreement.



ARTICLE 7: FITTING-OUT AND ALTERATION

Clause 1: Within 10 days after the Lease is concluded, the Tenant shall submit various final design-concerned drawings, plans, materials and budget about decorating and arranging internal equipment and accessories to the Property Management Company for approval. The Tenant shall pay to the Property Management Company the Fitting-out Guarantee reserved in the Fitting-out Regulations. The Property Management Company shall notify the Tenant of the vetting result within 10 working days (time of approval by designing institute and government departments is not included) after the Tenant's submission of the drawings. If the Tenant wants to make any alteration to the air-conditioning and fire-protection in the Premises, the alteration must be carried out by the professional company for air-conditioning and fire prevention alteration appointed by the Property Management Company.

Clause 2: The Tenant must obtain the written approval from the Landlord if the Tenant wants to make any material alteration to the building structures and main facilities of the Premises. All incidental expenses incurred for employing mechanical engineering, structural engineering or other professional consultants to approve the working plan shall be borne by the Tenant (whether the application has been approved or not). The Landlord can only make the employment after informing the Tenant of the items and amount of the relevant consultant fees in advance and provided the same are acceptable to the Tenant.

Clause 3 : The Tenant may not carry out the following activities without obtaining the prior written approval from the Landlord and the



approval from the relevant government authorities in charge if such is required ;

Any alteration to the construction structures of the Premises;
Marking, painting, drilling holes, installing hooks on the exterior walls of the Premises or any part of Tower of Twin Towers ;
Breaking, cutting or connecting any channels of Tower of Twin Towers;

Using any method to demolish the interior/exterior appearances of the Premises or Tower of Twin Towers including but not limited to: using the interior/exterior walls and the window of Tower of Twin Towers to stick or hold advertisement board and promotion materials;

Privately installing or adding any air-conditioner, heating and cold producing equipment, cooking equipment and other mechanical or fixed facilities; and

Installing clothes hangers, flagstaff, antenna or other protruding materials.

If the Tenant shall be in breach of the above provisions, the Tenant shall restore the situation to its original condition within 7 days after the issuance of written notice by the Landlord. The Landlord shall have the right to remove such unauthorized alteration and addition of equipment and installations without giving notice to the Tenant and all incidental expenses thereby incurred shall be borne by the Tenant.

Clause 4: In case that the Tenant wants to decorate once more or renovate the Premises, the Tenant shall by no means affect the structure, compartment, benefits of other lessees and users of the Premises, the Tenant shall submit before the beginning of the



Project the program and planning to the Landlord for examination and ratification. Only with the consent of the Landlord and the relevant departments (if required) can the Tenant carry out the decoration. In case of any change or impairment due to the decoration of the Tenant, the expenses thereof shall be borne by the Tenant.

Clause 5: the Landlord approving the Tenant's fitting-out plans and specifications as above shall not exonerate the Tenant from its obligation to seek at its own costs the appropriate approval(s) from all relevant competent government authorities in Beijing to the fitting-out plans and specifications that the Landlord has approved before commencing the fitting-out works. the Landlord shall not be responsible for any consequence resulting from the Tenant's non-compliance with any requirement stipulated and/or imposed by the said relevant competent government authorities.

Clause 6: The Tenant shall restore the Premises to its original condition before the Premises is returned to the Landlord on the expiring date of the Lease.

ARTICLE 8: ENTRY

Clause 1: If it shall become necessary for the Landlord or his agents and servants to carry out any maintenance, cleaning, security protection, fire prevention, rescue work to the Premises or Twin Towers and upon other management requirement, the Landlord must first contact with the Tenant or the Property Management Company and with consent shall be allowed to enter the Premises to do the work. In case of emergency and it is not



possible to get any prior contact with the Tenant, the Landlord may have direct contact with the Property Management Company and enter the scene to carry out necessary measures under permitted circumstances. Immediately after the entry, the Landlord shall report the same to the Tenant but shall not assume responsibility for any loss caused thereby.

Clause 2: If no agreement has been signed by the parties to renew the tenancy, the Tenant shall not object and the Landlord may accompany new tenant to view the Premises during normal working hours and on 1 day advance notice used by the Tenant within 90 days before the expiry of this Agreement. The Tenant shall provide assistance to the Landlord.

Clause 3: The Tenant shall give prior written notice to the Property Management Company if the Tenant wants to remove any large item of goods for his own use from Twin Towers. Upon the written approval of the Property Management Company, the removal shall be conducted in accordance with the time and route specified by the Property Management Company of Twin Towers.

Clause 4: All the staff of the Tenant shall go through the registration procedures when entering or leaving the Office Tower of Twin Towers during non-working business days, holidays or after normal business hours. For that, the Tenant shall provide a name list of the staff working in the Premises together with their changes to the Landlord.



ARTICLE 9: TENANT'S OBLIGATIONS

- Clause 1: The Tenant shall pay the Rental and Other Charges under this Agreement punctually.
- Clause 2: The Tenant must act legally in strict compliance with the laws and regulations of the People's Republic of China. The Tenant has the obligation to ensure the fit-out work and partitions within the Premises to comply with the requirements of fire prevention, building or other relevant regulations and ordinances.
- Clause 3: The Tenant must comply with all the provisions of this Agreement and the regulations of the Property Management Company of Twin Towers and shall cooperate with the Landlord or the Property Management Company of Twin Towers in relation to the property management work. The Tenant shall comply with the Tenant's regulations of Twin Towers and the regulations as stated in the fitting-out handbook.
- Clause 4: The Tenant may use the common areas and facilities of Twin Towers in accordance with the provisions of this Agreement but shall be responsible to keep the Premises and the common areas in a clean condition and the equipment, facilities therein in a good condition. Such equipment, facilities shall include the decoration materials and other immovable fixtures on the floor, walls, ceilings, such as doors and windows, electrical facilities, furniture, sanitary utilities, etc. The repairing charges for any damage caused to the Premises and the said equipment, facilities (fair wear and tear and force majeure excepted) shall be borne by the Tenant.

- Clause 5: To avoid the overloading of designed electricity, if the Tenant wants to install electrical equipment within the Premises due to actual requirements, the Tenant must obtain the prior written approval of the Property Management Company.
- Clause 6: Not to place any thing on the floor of the Premises which will exceed the limit of floor loading (the designed floor loading of Twin Towers shall be 250 Kilograms/square meter). The Landlord reserves the right to specify the weight and the area for the placement of all the safety wardrobes, equipment so as to equalize the designed load. Such office equipment, installations and mechanical equipment which the Landlord permitted to move in and which cause vibration, noise and excessive heat shall be put on a stand in order to avoid interference with other tenants. The costs for buying the stand shall be borne by the Tenant.
- Clause 7: Not to place any weapon, gunpowder, niter, ammunition, oil or other inflammable, explosive and dangerous goods, prohibited goods and goods that emit strong smell. The Tenant shall not produce or emit any strong and special smell or polluted air from the Premises.
- Clause 8: Not to carry out any illegal or immoral activities or any activities which might cause damage or obstruction to the Landlord or other tenants of Twin Towers within the Premises, nor operate or conduct any business or behavior impairing the image of the Premises as a high-grade shopping center and office building.
- Clause 9: Not to pile up or leave any goods, furniture, rubbish in the doors and lobby, staircases, ways and other common areas of Twin Towers. Not to block the said areas and fire dispersion ways so

as to affect the use of fire prevention equipment. Not to occupy the common areas for exhibition, dispatch of promotion materials or other business activities. Not to hold any auction sales in the said areas and the Premises.

Clause 10: Not to produce any loud noise, vibration in the Premises and not to cause any nuisance to the third party, including but not limited to voices coming out from television, radio and other materials (Save and except as specially authorized by the Landlord but the voice volume should be controlled within the authorized scope).

Clause 11: To guarantee to comply with the regulations of the Property Management Company of Twin Towers to put the rubbish in the specified area and receptacle.

Clause 12: The Tenant shall take responsibility of the fire prevention, safety and public security of the Premises. Without written approval from the Landlord, the Tenant may not add any locks or change the original locks of the doors of the Premises (except those places designed for the storage of financial and confidential information within the Premises). The Tenant shall provide spare keys for the locks of the Premises to the Property Management Company. If an emergency arises and it is not possible to contact the Tenant in advance, the Landlord and its agents and employees directly contact the Property Management Company and enter the scene of such emergency to carry out necessary measures under permitted circumstances. Immediately after such entry, the Landlord shall report such entry to the Tenant but shall assume no responsibility for any loss caused thereby.

Clause 13: The Tenant shall provide a photocopy of his business license as



Annex III of this Agreement.

- Clause 14: Not to use the Premises for manufacture or storage of large quantities of goods, except exhibition materials and samples that are necessary for the Tenant's business. The Tenant may not use the Premises for any other purposes except with the written approval of the Landlord. The Tenant shall not allow any persons to cook in the Premises (except heating meals and making beverages) and shall not use the Premises as sleeping quarters. If the Tenant shall use the Premises other than the purposes as stated in this Agreement, the Landlord shall have the right to terminate this Agreement and the Tenant shall be responsible for breach of this Agreement.
- Clause 15: Any act done by any person authorized by the Tenant to use or enter the Premises shall be treated as the personal act of the Tenant and the Tenant shall assume full responsibility in respect thereof.
- Clause 16: Upon the happening of fire or other accidents, the Tenant shall forthwith inform the Property Management Company besides calling the Police immediately and doing all necessary measures.
- Clause 17: Tenant shall not except with the consent of the Landlord, erect or display any propaganda materials, e.g., words, marks or advertisement out of the Premises, or any part of the Premises, including outer walls, or through any window. With the approval of the Landlord, the Tenant may display his name with the unified characters specified by the Property Management Company on the directory (if any) of Twin Towers. The Property Management Company shall have the full authority to arrange for



the production and placement of such unified characters for the Tenant and the Tenant shall bear the relevant costs. Under all the circumstances, the Property Management Company reserves the right to move such nameplate to any other place of Twin Towers.

Clause 18: The Tenant shall not carry out or allow others to carry out any activities that will or might cause the insurance policy or policies over the Premises and Twin Towers to become void. The Tenant shall pay the increased premium and other related expenses incurred by the Landlord for any renewal of such policy or policies rendered caused by a breach of this clause. If the Tenant shall be in breach of the above provisions and cause the insurance policy or policies over the Landlord to become void and thus makes the Landlord fail to receive the compensation or the insurance money be lessened, the Tenant shall compensate the loss so caused to the Landlord.

Clause 19: The Tenant shall insure adequate and effective property insurance on the properties within the Premises. The insurance premium shall be agreed by the Tenant and the insurance company. The Tenant shall provide sufficient documents to show he has purchased adequate insurance.

Clause 20: The Tenant shall not permit any other party to use the Premises by way of assignment of this Lease, sublease or any other ways or use jointly with other party. However, the Tenant may assign, sublet, or provide part of the Premises to the use of its affiliated companies with the prior written approval of the Landlord. The Tenant shall guarantee that the subsequent user of the Premises will comply with all provisions of this Agreement.



ARTICLE 10: LANDLORD'S OBLIGATIONS

- Clause 1: To guarantee the Tenant to have a normal working environment. Not to interfere with the Tenant's normal work unless under special circumstances.
- Clause 2: To guarantee the normal operation of the internal common facilities of Twin Towers and the maintenance of the building 's infrastructure. The Landlord shall dispatch workers to repair any defect upon receiving notice from the Tenant (except those which fall within the responsibilities of any tenants or users of Twin Towers). The Landlord shall not be responsible for any malfunction of the facilities in the Premises for reasons not caused by the Landlord and the Tenant's obligations to pay Rental and Other Charges under each and every provision of this Agreement shall not be affected.
- Clause 3: During the Lease, the Landlord shall be responsible for replacement of those public and fixed installations, facilities which can no longer be repaired in the Premises but shall not be responsible for the replacement of those fixed installations, facilities or removable equipment installed by the Tenant as approved by the Landlord under the condition that no damage will be caused to the Premises.
- Clause 4: To clean the exterior walls of Twin Towers (except those fall within the responsibilities of any tenants or users of Twin Towers), maintain the sanitary condition and to keep the sanitary facilities of the common areas of Twin Towers in good condition.



- Clause 5: To provide 24-hour security service for the common areas of Twin Towers.
- Clause 6: To provide heating and air-conditioning supply according to seasons.
- Clause 7: To be responsible for the decoration of public area in Twin Towers.
- Clause 8: To dispose of the general garbage of Twin Towers and to provide the relevant storage places and facilities.
- Clause 9: To purchase effective insurance for the common areas and facilities of Twin Towers.
- Clause 10: To provide such services as the Landlord may think available and necessary for the tenants and visitors of Twin Towers.

ARTICLE 11: LANDLORD RESERVED RIGHTS

- Clause 1: The owners of public facilities shall have the right to let the service channels which supply or are capable of supplying Twin Towers or other buildings in the vicinity pass through the Premises without interruption. Upon obtaining the prior approval of the Landlord, the owners of public facilities or their working staff may enter the Premises to check, repair, change and build new service channels so as to connect Twin Towers or provide the right to use public facilities for other buildings in the vicinity.
- Clause 2: During the period of tenancy, the Landlord shall have the right to



change the name of Twin Towers or any part thereof. The Landlord shall not be responsible for any possible expenses incurred by the Tenant as a result thereof but the Landlord shall give 3 months' notice in advance to the Tenant before any change of name.

Clause 3: If the Tenant shall fail to remedy the breach of any provision of this Agreement pointed out by the Landlord, the Landlord shall have the right to terminate services to the Premises or to take measures as the Landlord shall deem appropriate until the Tenant shall remedy the said breach and pay all the costs incurred thereby (including but not limited to overdue fine).

ARTICLE 12: TERMINATION

Clause 1: Upon the expiry of the tenancy or early termination of this Agreement, the Tenant shall handover the Premises in its original condition (normal wear and tear excepted) to the Landlord on the date of the expiry of the tenancy or early termination of this Agreement or within the time limit prescribed by the Landlord, and shall check the Premises and other ancillary facilities together with the Landlord. The Tenant shall bear any damage caused (fair wear and tear excepted). The Landlord shall have the right to take back the Premises in its existing condition at the time of the expiry of the tenancy or early termination of this Agreement without any compensation to the Tenant.

Clause 2: Under any one of the following situations, the Landlord shall have the right to terminate this Agreement and take back the Premises, the agreement shall then be terminated. The deposit paid by the



Tenant in accordance with Article 6 of this agreement will be forfeited, and shall be deemed as a penalty:

1. The Tenant operates illegally and in violation of any laws and regulations of the People's Republic of China.
2. Without consent of the Landlord, the Tenant changes the usage of the Premises or delivers, subleases, transfers the Premises or part of it to any other party.
3. The Tenant shall become bankrupt or is under the process of winding up (other than winding up due to merger or reconstruction), or any property in the Premises has been properly levied on or charged by legal authorities.
4. The Rental, Management Fees and Other Charges due under this Agreement shall become unpaid within 15 days after the same shall have become due.

Clause 3 : If the Tenant shall fail to handover the Premises, any decorations, furniture, installations, goods, materials, equipment or other articles left by the Tenant in the Premises shall be treated as abandoned by the Tenant. The Landlord shall have the right to handle the said articles in any way he likes and the Tenant shall not disapprove and hold the Landlord liable and request the Landlord to make any compensation. Meanwhile, the Landlord shall have the right to claim the Tenant for all the expenses incurred in removing, cleaning and handling the said articles.

Clause 4: In case this Lease can not be implemented any longer due to any Force Majeure stated in Article 13, this Lease shall be terminated upon the notice issued from one party to the other party pursuant to the provisions under Article 13 Clause 2.



Clause 5: If the Tenant breaches any provision of this Agreement and fails to rectify such breach within 15 working days from receipt of written notice from the Landlord, the Landlord shall have the right to terminate this Agreement.

ARTICLE 13: FORCE MAJEURE AND EXEMPTION OF LIABILITIES

Clause 1: Should any party be prevented from executing the Lease due to such incidents as earthquake, typhoon, storm, fire disaster, war, rebellion and other unpredictable Force Majeure of which the happening and result can not be avoided, the Party confronted with such Force Majeure shall notify the other party by cable or fax and submit, within 15 days, the detailed situations of Force Majeure and the certificate of the reason that the Lease or part of the Lease can not be executed or it needed to be executed later. The certificate shall be issued or confirmed by the local notary office of the party confronted with the Force Majeure. The Party affected by such Force Majeure shall not be responsible for compensating the other Party.

Clause 2: If the Premises shall be rendered unfit for use or impossible for use due to force majeure or other reasons not related to the default of the Tenant and the Landlord's insurance payment has not yet been fully or partly refused, the Landlord shall repair the damage and restore the Premises to its original condition in timely fashion. If the Premises has not been repaired or rebuilt within 2 months after damage, either party may issue written notice to the other upon the expiry of 2 months after the Premises has been damaged to terminate this Agreement. The Tenant shall not be required to pay the Rental during the period



when the Premises is unfit for use. If any part of the Premises can still be used, after consultation and agreement between the parties, the Tenant may continue to use such part of the Premises and pay the Rental and other expenses in respect thereof.

ARTICLE 14: WAIVER OF RIGHTS

Clause 1: The Tenant hereby solemnly declares and undertakes to abandon the preemption right to buy the Premises and the Landlord may sell or assign the Premises to any third party without the consent of the Tenant. If the Landlord shall sell or assign the Premises at the time when this Agreement is valid, the Landlord must specify in the sale and purchase agreement or the assignment that the Assignee of the Premises shall assume and continue to perform this Agreement. The Tenant agrees that the Assignee shall be the only party to assume and perform all the Landlord's rights and obligations under this Agreement.

Clause 2: Acceptance of rent by the Landlord shall not be considered as any waiver of rights on the part of the Landlord in respect of any breach of this Agreement by the Tenant. Any waiver of rights by the Landlord under the provisions of this Agreement shall be valid only if it is signed in writing by the Landlord. The Tenant pays Rental or Other Charges less than the amount stipulated in this Agreement or an acceptance of insufficient amount of Rental or Other Charges by the Landlord from the Tenant shall not be considered as consent on the part of the Landlord to receive lesser payment; such acceptance shall not affect the Landlord's right to claim the Rental and payment in arrears and the

Landlord's right to take any other measures according to the laws of the People's Republic of China.

ARTICLE 15: SETTLEMENT OF DISPUTES

Clause 1: The laws of the People's Republic of China shall be applied towards the formation, interpretation, performance of this Agreement and the resolution of disputes relating to this Agreement. This Agreement shall be governed by the laws of the People's Republic of China.

Clause 2: All disputes in connection with this Lease or the execution thereof shall first be resolved through friendly negotiations. If the dispute is still unresolved, either party may submit the disputes for arbitration to the China International Economic and Trade Arbitration Committee(CIETAC) in accordance with its procedural rules then in force. The decision of arbitration shall be final and binding on both parties.
All arbitration fees (including the legal fees of both parties) shall be borne by the losing party, unless otherwise determined by the arbitration awarded.

ARTICLE 16: LEGAL EXPENSES

Each party shall bear its own legal costs of and incidental to this Lease and other related tax charged by the government in accordance with related regulations.

ARTICLE 17: OTHERS

- Clause 1: This Agreement shall prevail if there shall be any discrepancy between any previous agreements, memoranda, telex communications signed by the parties and this Agreement.
- Clause 2: Any amendment to this Agreement and any matters not dealt with in this Agreement shall be agreed by the parties and shall not take effect unless there is any signed and written agreement. All the annexes, ancillary agreements of this Agreement shall form an integral part of this Agreement and shall have the same legal validity of this Agreement.
- Clause 3: Any notice required to be given under this Agreement shall be in writing, with the addressee marked clearly. Any such notice shall be deemed delivered if it is delivered in person or by registered post prepaid postage, to the legal address of the other party, or the most recently known business address in PRC of the other party.
- Clause 4: Each of the provision under this Agreement is independent of one another. The legal validities of the remaining provisions of this Agreement shall not be affected if any provision shall be ruled void.
- Clause 5: This Agreement and the annexes are written in Chinese and English in five originals with Chinese version having the legal validity. The Landlord and the Tenant shall each hold two originals and the Beijing Construction Committee (in charge of lease registration) hold one.

Clause 6: This Agreement shall take effect after the Landlord and the Tenant have signed and chopped this Agreement.

This Agreement is signed by the authorized representatives of the parties :

The Landlord: Beijing Lucky Goldstar Building Development Co., Ltd.

Signed & chopped:

Dated this 29th June, 2007

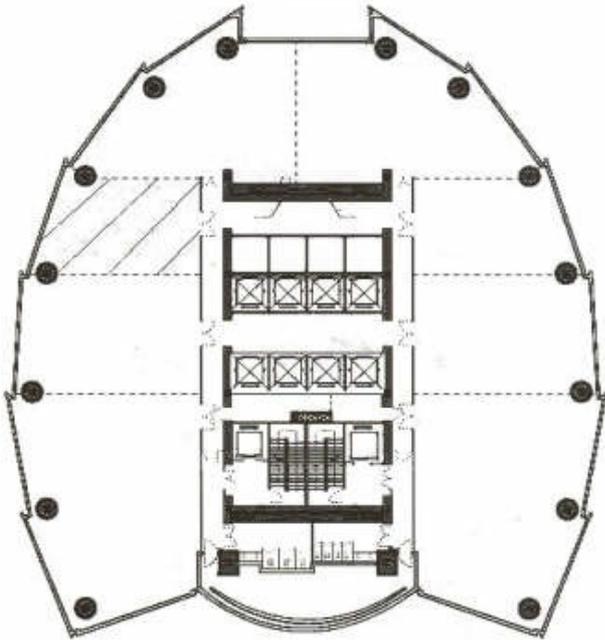
The Tenant: NetSol Technologies Ltd.

Signed & chopped:

PAUL GRACE
AUTHORIZED SIGNATORY

Dated this day of 26th June, 2007

ANNEX I: FLOOR PLAN OF THE PREMISES



Unit 03, 15th Floor, West Tower

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ARCHITECTURE

ANNEX II: DELIVERY CONDITION

(According as the Premises receiving records of the Tenant)

| ITEM | DESCRIPTION |
|-------------------------------------|---|
| 1. Corridor | According to the regulations of the fire prevention authorities, the corridors of the office building shall be equipped with fireproofed walls. On the main tenancy floors, corridors may be minimized in order to maximize the available area. But moving the corridor ceilings, lighting and diffuser to other places is forbidden. |
| 2. Door | A glass bidirectional sliding door is provided in the center of single room |
| 3. Floor padding, wiring and cables | 100mm floor padding is provided, including standard outlet, socket, wire and cable. In the main tenancy area, OA, voice and data wire and lineout may be provided at the request of the tenant |
| 4. Window Curtain | Window blind box(es) and rolling winding blind(s) |
| 5. Ceilings | Integrated ceiling system is provided (frame and soundproof brick, lighting attachments and light fixtures, air-conditioning piping, detector etc.) |
| 6. Partitions | Sound insulation plasterboard Celotex with white spray-painting |



ANNEX III: PHOTOCOPY OF BUSINESS LICENCE



NetSol Technologies (Pvt.) Ltd.
NetSol IT Village, NetSol Avenue, Ghazi Road
Lahore Cantt. 54792, Pakistan

Proposal

June 21st, 2007.

We are pleased to submit the proposal of working area between Toyota Leasing (Thailand) Co., Ltd. and NetSol Technologies (Pvt.) Ltd.

Toyota Leasing (Thailand) Co., Ltd. would provide the facilities as following :

- 87 sq.m. of working area at Abdulrahim Place floor 19th which NetSol will use for supporting Toyota Leasing (Thailand) Co.,Ltd., for implementation and maintenance of Leasesoft Software.
- Appropriate furniture
- Cleaning, electricity, and water supply

NetSol Technologies (Pvt.) Ltd. would share the following expenses:

| Item | Description | Per month (THB) |
|------|--|-----------------|
| 1. | Cost of working space 87 sq.m. * 300 THB | 26,100 |
| 2. | Telephone expenses 4 numbers | Actual |
| 3. | Internet broad band service fee 256 Mbps | 7,500 |

Remark :

- The office is not to be used for marketing activities (for examples, demonstrating for potential customers, and etc.). There will be no NetSol's signboard. And, there will be no registration of the working space as one of its business address.
- The contract is for 1 year only from July 1st, 2007 and renewable if agreed by both parties.
- The agreement can be cancelled with 90-day notice.
- The cost as reflected in items 1 and 3 are indicative cost to be used as an offset to services charged to Toyota Leasing by NetSol.
- NetSol shall indemnify and hold Toyota Leasing (Thailand) Co., Ltd. harmless from any liability arising out of or in connection with the business of NetSol with other companies
- Further term and conditions will be as agreed by both parties.

Sign on behalf of
Toyota Leasing (Thailand) Co.,Ltd

Sign on behalf of
NetSol Technologies (Pvt.) Limited


.....
(Mr. Henry Tolentino)
President

.....
(Mr. Asad Ghauri)
Vice President

NETSOL TECHNOLOGIES, INC.
CODE OF BUSINESS CONDUCT AND ETHICS
ADOPTED JULY 2, 2004
Amended on July 22, 2007

I. INTRODUCTION

One of our Company's most valuable assets is its integrity. Protecting this asset is the job of everyone in the Company. To that end, we have established this Code of Business Conduct and Ethics. This Code applies to every officer, director and employee. We also expect that those with whom we do business (including our agents, consultants, suppliers and customers) will also adhere to this Code. This Code is designed to help you comply with the law and maintain the highest standards of ethical conduct. This Code does not cover every issue that may arise, but it sets out basic principles and a methodology to help guide you in the attainment of this common goal. Under this Code, the term "director" refers to a member of the Company's Board of Directors, rather than an employee whose job title designates that employee as a director.

The Code is not a substitution for the Company's other policies and procedures, including but not limited to, the Company's Insider Trading policies, Standards of Business Conduct, Policy against Discrimination and Harassment, the Accounting and Finance Policies, Financial Officer Code of Ethics and the Employee Manual.

The Code is a statement of policy and does not, in any way, constitute an employment contract or an assurance of continued employment. Employees of the Company are employees at-will.

All of the Company's officers, directors and employees must carry out their duties in accordance with the policies set forth in this Code and with applicable laws and regulations. To the extent that other Company policies and procedures conflict with this Code, you should follow this Code. Any violation of applicable law or any deviation from the standards embodied in this Code will result in disciplinary action. Depending on the seriousness of the violation and other relevant circumstances, violations of this Code may result in warnings, reprimands, demotion, suspension, termination, or other disciplinary action. Disciplinary action also may apply to an employee's supervisor who directs or approves the employee's improper actions, or is aware of those actions but does not act appropriately to correct them. In addition to imposing its own discipline, the Company may also bring suspected violations of law to the attention of the appropriate law enforcement personnel. If you are in a situation or are aware of a situation, which you believe may violate or lead to a violation of this Code, follow the procedures described in Sections 10 and 11 of this Code.

Each of us is responsible for knowing and understanding the guidelines contained in the following pages. If you have questions, ask them; if you have ethical concerns, raise them. The General Counsel, who is responsible for overseeing and monitoring compliance with this Code, and the other resources set forth in this Code, are available to answer your questions and provide guidance and for you to report suspected misconduct. Our conduct should reflect the Company's values, demonstrate ethical leadership, and promote a work environment that upholds the Company's reputation for integrity, ethical conduct and trust.

II. COMPLIANCE WITH LAWS AND REGULATIONS

The Company seeks to comply with the laws and regulations in all countries in which it operates.

Numerous federal, state and local laws and regulations both in the U.S. and abroad define and establish obligations with which the Company, its employees and agents must comply both in letter and in spirit of the law. Under certain circumstances, local country law may establish requirements that differ from this Code. You are expected to comply with all local country laws in conducting the Company's business and in performing your duties for the Company, including those prohibiting discrimination based on age, sex, race, religion or other characteristics. If you violate these laws or regulations in performing your duties for the Company, you not only risk individual indictment, prosecution and penalties, and civil actions and penalties, you also subject the Company to the same risks and penalties, and you may be subject to immediate disciplinary action, including possible termination of your employment or affiliation with the Company.

If you believe there is any conflict between this Code and local laws, you should consult the Compliance Officer.

III. FULL, FAIR, ACCURATE, TIMELY AND UNDERSTANDABLE DISCLOSURE

It is of paramount importance to the Company that all disclosure in reports and documents that the Company files with, or submits to, the SEC, and in other public communications made by the Company is full, fair, accurate, timely and understandable. The Company maintains a Nominating and Corporate Governance Committee to help oversee its public disclosure. You should consult with the Compliance Officer if you have any concerns about the accuracy of any public disclosure. You must take all steps available to assist the Company in these responsibilities consistent with your role within the Company. In particular, you are required to provide prompt and accurate answers to all inquiries made to you in connection with the Company's preparation of its public reports and disclosure.

Any attempt to enter inaccurate or fraudulent information into the Company's accounting system will not be tolerated and will result in disciplinary action, up to and including termination of employment.

IV. SPECIAL ETHICS OBLIGATIONS FOR PERSONS WITH FINANCIAL REPORTING RESPONSIBILITIES

Each director, the Chief Executive Officer, President, and all executive officers elected or designated by the board of Directors are Senior Company Representatives. Senior Company Representatives each bear a special responsibility for promoting integrity throughout the Company. Furthermore, the Senior Company Representatives have a responsibility to foster a culture throughout the Company as a whole that ensures the fair and timely reporting of the Company's results of operation and financial condition and other financial information.

Because of this special role, the Senior Company Representatives are bound by the following Financial Officer Code of Ethics, and by accepting the Code of Business Conduct and Ethics each agrees that he or she will:

- Perform his or her duties in an honest and ethical manner.
 - Refrain from engaging in any activity or having a personal interest that presents an actual or apparent conflict of interest. A "conflict of interest" occurs when a person's personal interest interferes, or appears to interfere, with the interests of the Company. A conflict situation can arise when a Senior Company Representative takes action or has interests that prevents or interferes with that person's performing his or her Company duties and responsibilities honestly, objectively, and effectively. Conflicts of interest can also arise when an employee, officer or director, or members of his or her family, exploit the relationship with the Company for personal gain.
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- Take all necessary actions to ensure full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, government agencies and in other public communications.
- Comply with all applicable laws, rules and regulations of federal, state and local governments.
- Proactively promote and be an example of ethical behavior in the work environment.

V. INSIDER INFORMATION AND INSIDER TRADING

You should never trade securities on the basis of confidential information acquired through your employment or fiduciary relationship with the Company and you should never disclose confidential information to someone for the purpose of enabling them to make a profit or avoid a loss trading securities.

Company policy and the laws of the United States and many other countries strictly prohibit any director, officer or employee of the Company, whenever and in whatever capacity employed, from trading Company securities (including equity securities, convertible securities, options, bonds, and derivatives thereon) while aware of material nonpublic information about the Company. If you become aware of any material nonpublic information, you may not execute any trade in Company securities and you should treat the information as strictly confidential. This prohibition applies to Company securities as well as the securities of any other company about which you acquire material nonpublic information in the course of your duties for the Company.

Information is considered “material” if there is a substantial likelihood that a reasonable investor would consider the information important in determining whether to trade in a security or the information, if made public, likely would affect the market price of a company’s securities. Information may be material even if it relates to future, speculative or contingent events and even if it is significant only when considered in combination with publicly available information. “Material information” cannot be defined precisely, since there are many gray areas and varying circumstances. When doubt exists, you should presume that the information is material and seek the guidance of the Company’s Legal Department.

Information is considered to be nonpublic unless it has been adequately disclosed to the public, which means that the information must be publicly disseminated and sufficient time must have passed for the securities markets to digest the information. It is important to note that information is not necessarily public merely because it has been discussed in the press, which will sometimes report rumors. You should presume that information is nonpublic unless you can point to its official release by the Company.

You may not attempt to “beat the market” by trading simultaneously with, or shortly after, the official release of material information. Although there is no fixed period for how long it takes the market to absorb information, out of prudence a person aware of material nonpublic information should refrain from any trading activity for two full trading days following its official release; shorter or longer waiting periods might be warranted based upon the liquidity of the security and the nature of the information. In addition, pursuant to the Company’s Insider Trading Policy, all directors and officers and some employees may only participate in transactions in the Company’s common stock during a time when the Company’s trading window is open.

Trading after the conclusion of each reporting period is prohibited to prevent senior management from trading on the open market in the Company's securities from the end of a quarter until the filing of the Company's report and from 30 days prior to the filing of the Company's annual report until the filing of the report. The Company's other insider trading policies shall be unaffected by this rule and are equally applicable during these "black-out" periods.

In addition to trading while in possession of material nonpublic information, it is illegal and a violation of Company policy to convey such information to another ("tipping") if you know or have reason to believe that the person will misuse such information by trading in securities or passing such information to others. This applies regardless of whether the "tippee" is related to the employee, officer or director or is an entity, such as a trust or a corporation, and regardless of whether you receive any monetary benefit from the tippee.

VI. CONFLICTS OF INTEREST AND CORPORATE OPPORTUNITIES

You must avoid any situation in which your personal interests conflict or even appear to conflict with the Company's interests. You owe a duty to the Company not to compromise the Company's legitimate interests and to advance such interests when the opportunity to do so arises in the course of your employment.

You shall perform your duties to the Company in an honest and ethical manner. You shall handle all actual or apparent conflicts of interest between your personal and professional relationships in an ethical manner.

You should avoid situations in which your personal, family or financial interests conflict or even appear to conflict with those of the Company. You may not engage in activities that compete with the Company or compromise its interests. You should not take for your own benefit opportunities discovered in the course of employment that you have reason to know would benefit the Company. The following are examples of actual or potential conflicts:

- you, or a member of your family, receive improper personal benefits as a result of your position in the Company;
 - You use the Company's property for your personal benefit;
 - you engage in activities that interfere with your loyalty to the Company or your ability to perform Company duties or responsibilities effectively;
 - you work (whether as an employee or a consultant) for a competitor, customer or supplier simultaneously with your service to the Company;
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- you, or a member of your family, have a financial interest in a customer, supplier, or competitor which is significant enough to cause divided loyalty with the Company or the appearance of divided loyalty (the significance of a financial interest depends on many factors, such as size of investment in relation to your income, net worth and/or financial needs, your potential to influence decisions that could impact your interests, and the nature of the business or level of competition between the Company and the supplier, customer or competitor);
- you, or a member of your family, acquire an interest in property (such as real estate, patent or other intellectual property rights or securities) in which you have reason to know the Company has, or might have, a legitimate interest;
- you, or a member of your family, receive a loan or a guarantee of a loan from a customer, supplier or competitor (other than a loan from a financial institution made in the ordinary course of business and on an arm's-length basis);
- you divulge or use the Company's confidential information - such as financial data, customer information, or computer programs - for your own personal or business purposes;
- you make gifts or payments, or provide special favors, to customers, suppliers or competitors (or their immediate family members) with a value significant enough to cause the customer, supplier or competitor to make a purchase; or
- you are given the right to buy stock in other companies or you receive cash or other payments in return for promoting the services of an advisor, such as an investment banker, to the Company.

Any transaction proposed between the Company and a related party must be submitted to the Company's Audit Committee for review. The Company will not, directly or indirectly, extend or maintain credit, or arrange for an extension of credit, in the form of a personal loan to or for any executive officer or director.

Non-employee directors shall not directly contact, meet with or have discussions with any employees of the Company other than its executive officers, unless approved on a case-by-case basis by the Company's Chief Executive Officer or the executive officer to whom the employee ultimately reports.

Neither you, nor members of your immediate family, are permitted to solicit or accept valuable gifts, payments, special favors or other consideration from customers, suppliers or competitors.

Conflicts are not always clear-cut. If you become aware of a conflict described above or any other conflict, potential conflict, or have a question as to a potential conflict, you should consult with your manager or the Company's Compliance Officer and/or follow the procedures described in Sections 10 and 11 of the Code. If you become involved in a situation that gives rise to an actual conflict, you **must** inform your manager or the Company's Compliance Officer of the conflict.

VII. CONFIDENTIALITY

All confidential information concerning the Company obtained by you is the property of the Company and must be protected.

Confidential information includes, but is not limited to, all non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed. You must maintain the confidentiality of such information entrusted to you by the Company, its customers and its suppliers, except when disclosure is authorized by the Company pursuant to its confidentiality policy or required by law.

Examples of confidential information include, but are not limited to: the Company's trade secrets; business trends and projections; information about financial performance; new product or marketing plans; research and development ideas or information; manufacturing processes; information about potential acquisitions, divestitures and investments, public or private securities offerings; significant personnel changes; and existing or potential major contracts, orders, suppliers, customers or finance sources or the loss thereof.

Your obligation with respect to confidential information extends beyond the workplace. In that respect, it applies to communications with your family members and continues to apply even after your employment or director relationship with the Company terminates.

VIII. FAIR DEALING

Our goal is to conduct our business with integrity.

You should endeavor to deal honestly with the Company's customers, suppliers, competitors, and employees. Under federal and state laws, the Company is prohibited from engaging in unfair methods of competition, and unfair or deceptive acts and practices. You should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing.

Examples of prohibited conduct include, but are not limited to:

- bribery or payoffs to induce business or breaches of contracts by others;
- acquiring a competitor's trade secrets through bribery or theft;
- making false or deceptive claims or comparisons about competitors or their products or services; or
- mislabeling products or services.

VIII. PROTECTION AND PROPER USE OF COMPANY ASSETS

You should endeavor to protect the Company's assets and ensure their proper use.

Company assets, both tangible and intangible, are to be used only for legitimate business purposes of the Company and only by authorized employees or consultants. Intangible assets include intellectual property such as trade secrets, patents, trademarks and copyrights, business, marketing and service plans, engineering and manufacturing ideas, designs, databases, Company records, salary information, and any unpublished financial data and reports. Unauthorized alteration, destruction, use, disclosure or distribution of Company assets violates Company policy and this Code. Theft or waste of, or carelessness in using, these assets has a direct adverse impact on the Company's operations and profitability and will not be tolerated.

The Company provides computers, voice mail, electronic mail (e-mail), and Internet access to certain employees for the purpose of achieving the Company's business objectives. As a result, the Company has the right to access, reprint, publish, or retain any information created, sent or contained in any of the Company's computers or e-mail systems of any Company machine. You may not use e-mail, the Internet or voice mail for any illegal purpose or in any manner that is contrary to the Company's policies or the standards embodied in this Code.

You should not make copies of, or resell or transfer (externally or internally), copyrighted publications, including software, manuals, articles, books, and databases being used in the Company, that were created by another entity and licensed to the Company, unless you are authorized to do so under the applicable license agreement.

X. REPORTING VIOLATIONS OF COMPANY POLICIES AND RECEIPT OF COMPLAINTS REGARDING FINANCIAL REPORTING OR ACCOUNTING ISSUES

You should report any violation or suspected violation of this Code to the appropriate Company personnel or via the Company's anonymous and confidential reporting procedures. No one will be subject to retaliation because of good faith report of suspected misconduct.

The Company's efforts to ensure observance of, and adherence to, the goals and policies outlined in this Code mandate that you promptly bring to the attention of the Compliance Officer or, if appropriate, the Chair of the Audit Committee, any material transaction, relationship, act, failure to act, occurrence or practice that you believe, in good faith, is inconsistent with, in violation, or reasonably could be expected to give rise to a violation, of this Code.

- Report of complaints or concerns regarding accounting, internal accounting controls and auditing matters. You should report any suspected violations of the Company's financial reporting obligations or any complaints or concerns about questionable accounting or auditing practices to the Compliance Officer, or, if appropriate, the Chairman of the Audit Committee. All such complaints will be forwarded to the Audit Committee. Such complaints will be forwarded promptly, except any complaints that are determined to be without merit by both the Company's Compliance Officer and Chairman of the Audit Committee may instead be reported at the next regularly scheduled meeting of the Audit Committee. The Audit Committee will evaluate the merits of any complaints received and authorize such follow-up actions, if any, as it deems necessary or appropriate to address the substance of the complaint. ***No one will be subject to retaliation because of a good faith report of a complaint or concern regarding Accounting Issues.***
 - Use common sense and good judgment; Act in good faith. You are expected to become familiar with and to understand the requirements of this Code. If you become aware of a suspected violation, don't try to investigate it or resolve it on your own. Prompt disclosure to the appropriate parties is vital to ensuring a thorough and timely investigation and resolution. The circumstances should be reviewed by appropriate personnel as promptly as possible, and delay may affect the results of any investigation. A violation of the Code or of applicable laws and/or governmental regulations is a serious matter and could have legal implications. Allegations of such behavior are not taken lightly and should not be made to embarrass someone or put him or her in a false light. Reports of suspected violations should always be made in good faith.
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- Internal investigation. When an alleged violation of the Code, applicable laws and/or governmental regulations is reported, the Company will take appropriate action in accordance with the compliance procedures outlined in Section 11 of the Code. You are expected to cooperate in internal investigations of alleged misconduct or violations of the Code or of applicable laws or regulations.
 - No fear of retaliation. It is Company policy that there be no intentional retaliation against any person who provides truthful information to a Company or law enforcement official concerning a possible violation of any law, regulation or Company policy, including this Code. Persons who retaliate may be subject to civil, criminal and administrative penalties, as well as disciplinary action, up to and including termination of employment. In cases in which you report a suspected violation in good faith and are not engaged in the questionable conduct, the Company will attempt to keep its discussions with you confidential to the extent reasonably possible. In the course of its investigation, the Company may find it necessary to share information with others on a “need to know” basis. No retaliation shall be taken against you for reporting alleged violations while acting in good faith.
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XI. COMPLIANCE PROCEDURES

The Company has established this Code as part of its overall policies and procedures. To the extent that other Company policies and procedures conflict with this Code, you should follow this Code. The Code applies to all Company directors and Company employees, including all officers, in all locations.

The Code is based on the Company's core values, good business practices and applicable law. The existence of a Code, however, does not ensure that directors, officers and employees will comply with it or act in a legal and ethical manner. To achieve optimal legal and ethical behavior, the individuals subject to the Code must know and understand the Code as it applies to them and as it applies to others. You must champion the Code and assist others in knowing and understanding it.

- Compliance. You are expected to become familiar with and understand the requirements of the Code. Most importantly, you must comply with it.
 - Corporate Compliance Management. The Company's General Counsel shall act as the Corporate Compliance Officer. The Compliance Officer shall oversee communication, training, monitoring, and overall compliance with the Code, and, with the assistance and cooperation of the Company's officers, directors and managers, foster an atmosphere where employees are comfortable in communicating and/or reporting concerns and possible Code violations.
 - Internal Reporting of Violations. The Company's efforts to ensure observance of, and adherence to, the goals and policies outlined in this Code mandate that all employees, officers and directors of the Company report suspected violations in accordance with Section 10 of this Code.
 - Access to the Code. The Company shall ensure that employees, officers and directors may access the Code on the Company's website. In addition, each current employee will be provided with a copy of the Code. New employees will receive a copy of the Code as part of their new hire information. From time to time, the Company will sponsor employee training programs in which the Code and other Company policies and procedures will be discussed.
 - Monitoring. The officers of the Company shall be responsible to review the Code with all of the Company's managers. In turn, the Company's managers with supervisory responsibilities should review the Code with his/her direct reports. Managers are the "go to" persons for employee questions and concerns relating to the Code, especially in the event of a potential violation. Managers or supervisors will immediately report any violations or allegations of violations to Compliance Officer. Managers will work with Compliance Officer in assessing areas of concern, potential violations, any needs for enhancement of the Code or remedial actions to effect the Code's policies and overall compliance with the Code and other related policies.
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- **Internal Investigation.** When an alleged violation of the Code is reported, the Company shall take prompt and appropriate action in accordance with the law and regulations and otherwise consistent with good business practice. The Compliance Officer shall promptly inform the Chairman of the Audit Committee of any reported, alleged violation. If the suspected violation appears to involve either a possible violation of law or an issue of significant corporate interest, or if the report involves a complaint or concern of any person, whether employee, a shareholder or other interested person regarding the Company's financial disclosure, internal accounting controls, questionable auditing or accounting matters or practices or other issues relating to the Company's accounting or auditing, then the manager or investigator should immediately notify the Compliance Officer, who, in turn, shall immediately notify the Chairman of the Audit Committee. If a suspected violation involves any director or executive officer or if the suspected violation concerns any fraud, whether or not material, involving management or other employees who have a significant role in the Company's internal controls, any person who received such report should immediately report the alleged violation to the Compliance Officer and if appropriate, the Chief Executive Officer, Chief Financial Officer, and/or the Chairman of the Audit Committee. The Compliance Officer or the Chairman of the Audit Committee, as applicable, shall assess the situation and determine the appropriate course of action. At a point in the process consistent with the need not to compromise the investigation, a person who is suspected of a violation shall be apprised of the alleged violation and shall have an opportunity to provide a response to the investigator.
- **Disciplinary Actions.** Subject to the following sentence, the Compliance Officer, after consultation with the Chief Executive Officer, shall be responsible for implementing the appropriate disciplinary action in accordance with the Company's policies and procedures for any employee who is found to have violated the Code. If a violation has been reported to the Audit Committee or another committee of the Board, that Committee shall be responsible for determining appropriate disciplinary action. Any violation of applicable law or any deviation from the standards embodied in this Code will result in disciplinary action, up to and including termination of employment. In addition to imposing discipline upon employees involved in non-compliant conduct, the Company also will impose discipline, as appropriate, upon an employee's supervisor, if any, who directs or approves such employees' improper actions, or is aware of those actions but does not act appropriately to correct them, and upon other individuals who fail to report known non-compliant conduct. In addition to imposing its own discipline, certain violations of this Code may require the Company to bring the violation to the attention of appropriate law enforcement personnel.
- **Retention of Reports and Complaints.** All reports and complaints made to or received by the Compliance Officer or the Chair of the Audit Committee shall be logged into a record maintained for this purpose by the Compliance Officer and this record of such report shall be retained for five (5) years.
- **Required Government Reporting.** Whenever conduct occurs that requires a report to the government, the Compliance Officer shall be responsible for complying with such reporting requirements.

Waivers of the Code of Business Conduct and Ethics.

Any waiver of this Code for officers or directors may be made only by the Board of Directors and will be promptly disclosed as required by law or regulation. A waiver of this Code for all other employees may be made only by the Company's Legal Department.

- **Corrective Actions.** Subject to the following sentence, in the event of a violation of the Code, the manager and the Compliance Officer should assess the situation to determine whether the violation demonstrates a problem that requires remedial action as to Company policies and procedures. If a violation has been reported to the Audit Committee or another committee of the Board, that committee shall be responsible for determining appropriate remedial or corrective actions. Such corrective action may include providing revised public disclosure, retraining Company employees, modifying Company policies and procedures, improving monitoring of compliance under existing procedures and other action necessary to detect similar non-compliant conduct and prevent it from occurring in the future. Such corrective action shall be documented, as appropriate.
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XII. PUBLICATION OF THE CODE OF BUSINESS CONDUCT AND ETHICS; AMENDMENTS AND WAIVERS OF THE CODE OF BUSINESS CONDUCT AND ETHICS

The most current version of this Code will be posted and maintained on the Company's website at www.netsoltek.com and filed as an exhibit to the Company's Annual Report on Form 10-KSB. The Company's Annual Report on Form 10-KSB shall disclose that the Code is maintained on the website and shall disclose that substantive amendments and waivers will also be posted on the company's website.

- Any substantive amendment or waiver of this Code (i.e., a material departure from the requirements of any provision) particularly applicable to or directed at executive officers or directors may be made only after approval by the Board of Directors after receiving a recommendation from a committee comprised of a majority of independent directors and will be disclosed within five (5) business days of such action (a) on the Company's website for a period of not less than twelve (12) months and (b) in a Form 8-K filed with the Securities and Exchange Commission. Such disclosure shall include the reasons for any waiver. The Company shall retain the disclosure relating to any such amendment or waiver for not less than five (5) years.
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EXHIBIT 21

LIST OF SUBSIDIARIES

1. NetSol Technologies Ltd. located in Lahore, Pakistan.
 2. NetSol Connect (Pvt) Limited located in Karachi, Pakistan.
 3. NetSol Abraxas, Inc., located in Adelaide, Australia.
 4. NetSol USA, Inc., located in Calabasas, California
 5. NetSol Technologies Ltd. located in London, England.
 6. NetSol-CQ Ltd., Located in Horsham, England
 7. NetSol Omni, located in Lahore, Pakistan.
 8. NetSol McCue, Inc., Located in Burlingame, California
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Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Najeeb Ghauri, certify that:

- (1) I have reviewed this annual report on Form 10-KSB for the fiscal year ended June 30, 2007 of NetSol Technologies, Inc., ("Registrant").
 - (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
 - (3) Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 - (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
 - (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
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(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 20, 2007

/s/Najeeb Ghauri

Najeeb Ghauri
Chief Executive Officer

Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Tina Gilger, certify that:

- (1) I have reviewed this annual report on Form 10-KSB for the fiscal year ended June 30, 2007 of NetSol Technologies, Inc., ("Registrant").
 - (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
 - (3) Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 - (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
 - (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
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(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 20, 2007

/s/ Tina Gilger

Tina Gilger
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of NetSol Technologies, Inc. on Form 10-KSB for the period ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Najeeb Ghauri, Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and,
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 19, 2007

/s/ Najeeb Ghauri

Najeeb Ghauri, Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of NetSol Technologies, Inc. on Form 10-KSB for the period ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Tina Gilger, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and,
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 19, 2007

/s/ Tina Gilger

Tina Gilger, Chief Financial Officer
