NETSOL TECHNOLOGIES INC
Form 10QSB
November 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2005

( ) For the transition period from __________ to __________

Commission file number: 0-22773

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

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

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

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

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

Yes X No

The issuer had 14, 178,711 shares of its $.001 par value Common Stock issued and outstanding as of November 7, 2005.

Transitional Small Business Disclosure Format (check one)

Yes No X

NETSOL TECHNOLOGIES, INC.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET -- SEPTEMBER 30, 2005
(UNAUDITED)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 1,469,154
Certificates of deposit	2,487,577
Accounts receivable, net of allowance for doubtful accounts of $80,000	4,029,616
Revenues in excess of billings	3,018,048
Other current assets	1,603,439

Total current assets		12
PROPERTY AND EQUIPMENT, net of accumulated depreciation		5
INTANGIBLES:		
Product licenses, renewals, enhancedments, copyrights, trademarks, and tradenames, net	4,811,643	
Customer lists, net	1,397,837	
Goodwill	1,166,611	
Total intangibles		7
TOTAL ASSETS		$ 25

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 2,524,249	
Current portion of notes and obligations under capitalized leases	1,087,110	
Billings in excess of revenues	125,185	
Due to officers	50,657	
Deferred liability	313,397	
Loans payable, bank	462,186	
Total current liabilities		4
OBLIGATIONS UNDER CAPITALIZED LEASES, less current maturities		
CONVERTIBLE DEBENTURE		
TOTAL LIABILITIES		4
MINORITY INTEREST		1
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 45,000,000 share authorized; 13,953,266 issued and outstanding	13,953	
Additional paid-in-capital	50,794,633	
Treasury stock	(27,197)	
Accumulated deficit	(30,115,240)	
Stock subscription receivable	(377,338)	
Common stock to be issued	124,586	
Other comprehensive loss	(641,511)	
TOTAL STOCKHOLDERS' EQUITY		19
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 25

See accompanying notes to the unaudited consolidated financial statements.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

For the Three Months
Ended September 30,

	2005	2004 (restated)
NET REVENUES	$ 4,469,985	$ 2,058,305
COST OF REVENUES	1,667,350	762,268
GROSS PROFIT	2,802,635	1,296,037
OPERATING EXPENSES:		
Selling and marketing	318,864	119,348
Depreciation and amortization	552,531	295,537
Settlement costs	15,953	--
Salaries and wages	536,376	347,237
Professional services, including non-cash compensation	123,158	114,334
General and adminstrative	583,547	277,515
Total operating expenses	2,130,429	1,153,971
INCOME FROM OPERATIONS	672,206	142,066
OTHER INCOME AND (EXPENSES)		
Gain (loss) on sale of assets	391	(620)
Beneficial conversion feature	(6,569)	(37,500)
Fair market value of options and warrants issued	(9,489)	(28,024)
Gain on forgiveness of debt	3,641	50,274
Interest expense	(79,023)	(21,575)
Interest income	84,412	--
Other income and (expenses)	(32,503)	21,558
Income taxes	(62,108)	(1,514)
Total other expenses	(101,248)	(17,401)
NET INCOME BEFORE MINORITY INTEREST IN SUBSIDIARY	570,958	124,665
MINORITY INTEREST IN SUBSIDIARY	(367,213)	15,068
NET INCOME	203,745	139,733
OTHER COMPREHENSIVE LOSS:		
Translation adjustment	(120,820)	(118,378)
COMPREHENSIVE INCOME	$ 82,925	$ 21,355
NET INCOME PER SHARE:		
Basic	$ 0.01	$ 0.01
Diluted	$ 0.01	$ 0.01
Weighted average number of shares outstanding		
Basic	13,897,883	9,504,789
Diluted	14,246,614	12,065,735

See accompanying notes to the unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)

	For the Three Months Ended September 30, 2005	2004
		(restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income from continuing operations	$ 203,745	$ 139,733
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	644,733	374,199
Gain on settlement of debt	(3,641)	(50,274)
(Gain) loss on sale of assets	(391)	620
Minority interest in subsidiary	367,213	(15,068)
Stock issued for services	60,856	25,745
Fair market value of warrants and stock options granted	9,489	28,024
Beneficial conversion feature	6,569	37,500
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
(INCREASE) DECREASE IN ASSETS:		
Accounts receivable	(123,256)	(214,527)
Other current assets	(1,731,193)	(824,020)
DECREASE IN LIABILITIES:		
Accounts payable and accrued expenses	(540,968)	(564,159)
NET CASH USED IN OPERATING ACTIVITIES	(1,106,844)	(1,062,227)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(817,676)	(213,990)
Sales of property and equipment	91,046	86,988
Purchases of certificates of deposit	(2,282,097)	--
Proceeds from sale of certificates of deposit	--	250,000
Increase in intangible assets - development costs	(211,844)	(77,990)
Capital investments in minority interest of subsidiary	--	191,606
Proceeeds from sale of minority interest of subsidiary	--	--
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(3,220,571)	236,614
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	--	220,000
Proceeds from the exercise of stock options	288,062	--
Capital contributed from sale of subsidiary stock	4,031,001	--
Purchase of treasury shares	--	(51,704)
Proceeds from loans	--	--
Capital lease obligations & loans 0 net	91,236	(30,967)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,410,299	137,329
EFFECT OF EXCHANGE RATE CHANGES IN CASH	14,543	21,973
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97,427	(666,311)
Cash and cash equivalents, beginning of period	1,371,727	871,161
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,469,154	$ 204,850

See accompanying notes to the unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW (CONTINUED)
(UNAUDITED)

	For the Three Months Ended September 30, 2005	2004
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$ 57,398	$ 21,575
Taxes	$ --	$ 1,514
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for services and compensation	$ 60,855	$111,920
Common stock issued for conversion of convertible debenture	$ 50,000	$150,000
Common stock issued for settlement of debt	$ --	$ 45,965

See accompanying notes to the unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated condensed financial statements be read in conjunction with the

financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended June 30, 2005. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

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

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

NOTE 2 - USE OF ESTIMATES:

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

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS:

In December 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 2006. The Company is evaluating the effects adoption of SFAS 123R will have on its financial statements.

In December 2004, the FASB issued SFAS Statement No. 153, "Exchanges of Non-monetary Assets." The Statement is an amendment of APB Opinion No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Company believes that the adoption of this standard will have no material impact on its financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement applies to all voluntary changes in accounting principle and requires retrospective application to prior period's financial statements of changes in accounting principle, unless this would be impracticable. This statement also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company believes that the adoption of this standard will have no material impact on its financial statements.

NOTE 4 - EARNINGS PER SHARE:

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

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

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005	NET INCOME	SHARES	PER SHARE
Basic earnings per share: Net income available to common shareholders	$ 203,745	13,897,883	$ 0.0
Effect of dilutive securities			
Stock options		347,064	
Warrants		1,667	
Diluted earnings per share	$ 203,745	14,246,614	$ 0.0

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004	NET INCOME	SHARES	PER SHARE
Basic earnings per share: Net income available to common shareholders	$ 139,733	9,504,789	$ 0.0
Effect of dilutive securities			
Stock options		1,852,277	
Warrants		708,668	
Diluted earnings per share	$ 139,733	12,065,734	$ 0.0

NOTE 5 - FOREIGN CURRENCY:

The accounts of NetSol Technologies UK, Ltd., and CQ Systems Ltd. use the British Pound; NetSol Technologies, (PVT), Ltd, NetSol (Pvt), Limited, NetSol Connect PVT, Ltd., and NetSol-TiG, use Pakistan Rupees; and NetSol Abraxas Australia Pty, Ltd. uses the Australian dollar as the functional currencies. NetSol Technologies, Inc., and subsidiary NetSol USA, Inc., use the 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. Accumulated translation losses of $641,511 at September 30, 2005 are classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet. During the three months ended September 30, 2005 and 2004, comprehensive loss in the consolidated statements of operation included translation loss of $120,820 and $118,378, respectively.

NOTE 6 - OTHER CURRENT ASSETS

Other current assets consist of the following at September 30, 2005:

Prepaid Expenses	$ 929,967
Advance Income Tax	159,670
Employee Advances	41,574
Security Deposits	68,018
Other Receivables	313,707
Other Assets	90,503
Total	$1,603,439

In August 2004, the Company entered into a two-year consulting agreement with a non-related third party whereby the Company agreed to pay the consultant a total of 100,000 shares of its common stock valued at $111,920. This has been recorded as a prepaid expense and is being amortized over the life of the service agreement. During the quarter ended September 30, 2005 and 2004, $13,990 and $6,995 was expensed, respectively.

NOTE 7 - DEBTS

NOTES PAYABLE

Notes payable as of September 30, 2005 consist of the following:

Name	Balance at 9/30/05	Current Maturities	Long-Term Maturities
A. Zaman Settlement	$ 16,300	$ 16,300	$ -
D&O Insurance	12,513	12,513	-
Noon Group	531,082	531,082	-
Gulf Crown	265,541	265,541	-
Maxim Group	102,453	102,453	-
Subsidiary Capital Leases	159,221	159,221	-
	1,087,110	1,087,110	-

In June 2002, the Company signed a settlement agreement with a former employee for payment of past services rendered. The Company agreed to pay the employee a total of $75,000. The agreement calls for monthly payments of $1,500 per month until paid. The balance owing at June 30, 2005 and September 30, 2005 was $16,300. The entire balance has been classified as a current liability in the accompanying consolidated financials statements.

In January 2005, the Company renewed its director's and officer liability insurance for which the annual premium is $138,050. In February 2005, the Company arranged financing with AFCO Credit Corporation with a down payment of $27,610 with the balance to be paid in monthly installments. The balance owing

as of September 30, 2005 was $12,513 and is classified as a current liability in the accompanying consolidated financials statements.

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. During the quarter ended September 30, 2005, $12,288 of accrued interest was recorded for this loan. Total accrued interest added to the loan at September 30, 2005 was $31,082.

In February 2005, the Company received a loan from Gulf Crown Investments in the amount of $250,000. 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. During the quarter ended September 30, 2005, $6,144 of accrued interest was recorded for this loan. accrued interest added to the loan at September 30, 2005 was $15,541.

In May 2005, the Company received a loan from Maxim Group, LLC in the amount of $250,000. The note is due on July 25, 2005 and carries an interest rate of 12% starting on the due date and increases 1.5% per month thereafter. The note called for $150,000 to be paid with 80,214 shares the Company's common stock and the balance of $100,000 to be paid in cash. In May 2005, the shares were issued. During the quarter ended September 30, 2005, $2,453 of accrued interest was recorded for this loan. Total accrued interest added to the loan at September 30, 2005 was $2,453.

In addition, the various subsidiaries had current maturities of capital leases of $159,221 as of September 30, 2005.

BANK NOTE

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 September 30, 2005:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE	BALANCE USD
Export Refinance	Every 6 months	8%	$ 238,363
Line of Credit	On Demand	12%	223,823
Total			$ 462,186

DUE TO OFFICERS

The officers of the Company from time to time loan funds to the Company in addition to deferring compensation. As of June 30, 2005, the officers had a balance owing to them of $47,636. Two of the officers have deferred the increase in their wages. During the three months ended September 30, 2005, $22,500 of accrued wages was added to the balance due to officers. In addition, $19,479 was reimbursed to one officer against the amounts owing to him. The balance owing as of September 30, 2005 was $50,657.

NOTE 8 - STOCKHOLDERS' EQUITY:

EQUITY TRANSACTIONS

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 $91,500 had been received during the fiscal year ended June 30, 2005 and a total of 87,143 shares were issued to the purchaser. The remaining balance of $108,500 or 103,333 shares are shown as "Shares to Be Issued" on the accompanying financial statements.

SERVICES

During the quarter ended September 30, 2005, the Company issued 2,500 restricted Rule 144 common shares in exchange for services rendered valued at $3,822. Compensation expense was calculated based upon the fair market value of the freely trading shares as quoted on NASDAQ 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. In addition, 11,000 shares were recorded as "Shares to be Issued" and are valued at $16,088. The shares were valued at the fair market value at the date of grant of $57,034 or $1.46 per share.

ISSUANCE OF SHARES FOR CONVERSION OF DEBT

During the quarter ended September 30, 2005, one of the convertible debenture holders elected to convert their note into common stock. The total of the note converted was $50,000 and the Company issued 26,882 shares of its common stock to the note holder.

OPTIONS AND WARRANTS EXERCISED

During the quarter ended September 30, 2005, the Company issued 65,000 shares of its common stock for the exercise of options valued at $48,750.

STOCK SUBSCRIPTION RECEIVABLE

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

The balance at June 30, 2005 was $616,650. During the quarter ended September 30, 2005, the Company received a total of $239,312 as payment on the receivable. The balance at September 30, 2005 was $377,338.

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 during the

three months ended September 30, 2005:

	Options	Exercise Price	Warrants	
Outstanding and exercisable, June 30, 2005	5,038,000	$0.75 to $5.00	655,280	$0
Granted	320,000	$1.75 to $2.89	13,441	$
Exercised	(65,000)	$ 0.75	--	
Expired	--		--	
Outstanding and exercisable, September 30, 2005	5,293,000		668,721	

During the quarter ended September 30, 2005, a total of 320,000 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 the options ranges from $1.75 to $2.89.

There were no options granted during the quarter ended September 30, 2004.

In compliance with FAS No. 148, the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation plan as defined by APB No. 25 and has made the applicable disclosures below.

Had the Company determined employee stock based compensation cost based on a fair value model at the grant date for its stock options under SFAS 123, the Company's net earnings per share would have been adjusted to the pro forma amounts for quarter ended September 30, 2005 as follows:

	2005
Net income (loss) - as reported	$ 203,745
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	(388,750)
Pro forma net loss	$ (185,005)
Earnings per share:	
Basic, as reported	0.01
Diluted, as reported	0.01
Basic, pro forma	(0.01)
Diluted, pro forma	(0.01)

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:

Risk-free interest rate	3.25%
Expected life	10 years
Expected volatility	54% - 57%
Dividend yield	0%

During the quarter ended September 30, 2005, one debenture holder converted their note into common stock. As part of the conversion, warrants to purchase a total of 13,441 common shares were issued to the note holder. 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 $9,489 or $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	56%
Dividend yield	0%

NOTE 9 - 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 has been evaluated in accordance with SFAS No. 142.

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

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

Product licenses and customer lists were comprised of the following as of September 30, 2005:

	Product Licenses	Customer Lists	Total
Intangible asset - June 30, 2005	$ 8,799,323	$ 3,294,757	$ 12,094,080
Additions	228,597	--	228,597
Effect of translation adjustment	(14,750)	(14,750)	
Accumulated amortization	(4,201,528)	(1,896,920)	(6,098,448)
Net balance - September 30, 2005	$ 4,811,642	$ 1,397,837	$ 6,209,479
Amortization expense:			
Three months ended Sept. 30, 2005	$ 345,754	$ 157,155	$ 502,909
Three months ended Sept. 30, 2004	$ 200,907	$ 78,916	$ 279,823

The above amortization expense includes amounts in "Cost of Goods Sold" for capitalized software development costs of $18,875 and $10,621 for the quarters ended September 30, 2005 and 2004, respectively.

At September 30, 2005 and 2004, product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, included unamortized software development and enhancement costs of $1,572,675 and $1,013,791, respectively, as the development and enhancement is yet to be completed. Software development amortization expense was $27,755 and $10,621 for the quarters ended September 30, 2005 and 2004, respectively.

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

	FISCAL PERIOD ENDING					
Asset	9/30/06	9/30/07	9/30/08	9/30/09	9/30/10	TOTAL
Product Licences	$1,101,966	$ 591,872	$ 591,872	$ 563,876	$ 240,416	$3,090,002
Customer Lists	497,969	263,376	263,376	263,376	109,740	1,397,837
	$1,599,935	$ 855,248	$ 855,248	$ 827,252	$ 350,156	$4,487,839

There were no impairments of the goodwill asset in the period ended September 30, 2005 and 2004.

NOTE 10 - SEGMENT INFORMATION

The following table presents a summary of operating information and certain year-end balance sheet information for the three months ended September 30:

	2005	2004
Revenues from unaffiliated customers:		
North America	$ --	$ 170,134
International	4,469,985	1,888,171
Consolidated	$ 4,469,985	$ 2,058,305
Operating income (loss):		
North America	$ (913,708)	$ (536,290)
International	1,585,914	678,356
Consolidated	$ 672,206	$ 142,066
Identifiable assets:		
North America	$ 5,839,916	$ 3,606,534
International	19,799,552	8,406,877
Consolidated	$ 25,639,468	$ 12,013,411
Depreciation and amortization:		
North America	$ 482,991	$ 263,503
International	161,742	110,696
Consolidated	$ 644,733	$ 374,199
Capital expenditures:		
North America	$ --	$ --
International	817,676	213,990
Consolidated	$ 817,676	$ 213,990

NOTE 11 - MINORITY INTEREST IN SUBSIDIARY

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 new partnership with Akhter Computers is designed to rollout connectivity and wireless services to the Pakistani national market. On signing of this Agreement, the Shareholders agreed to make the following investment in the Company against issuance of shares of Connect.

Akhter	US$ 200,000
The Company	US$ 50,000

During the quarter ended September 30, 2003, the funds were received by Connect and a minority interest of $200,000 was recorded for Akhter's portion of the subsidiary. During the quarter ended December 31, 2003, Akhter paid an additional $10,000 to the Company for this purchase. Per the agreement, it was anticipated that Connect would require a maximum of $500,000 for expansion of its business from each partner. Akhter was to meet the initial financial requirements of the Connect until November 1, 2003. As of December 31, 2004, both NetSol and Akhter had injected the majority of their committed cash to meet the expansion requirement of the company. As of June 30, 2005, a total of $751,356 had been transferred to Connect, of which $410,781 was from Akhter.

For the quarters ended September 30, 2005 and 2004, the subsidiary had net income of $51,538 and net losses of $30,196, respectively, of which $25,717 and ($15,068) respectively, was recorded against the minority interest. The balance of the minority interest at September 30, 2005 was $349,655.

NetSol-TiG:

In December 2004, NetSol forged a formed a joint venture with with a UK based public company TIG Plc. A new Joint Venture agreement 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. Both companies, according to this agreement, would invest a total of $1 million or $500,000 each in next few months for infrastructure, dedicated personnel and systems in the NetSol IT campus in Lahore.

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

For the quarter ended September 30, 2005, the subsidiary had net income of $240,166, of which $119,843 was recorded against the minority interest. The balance of the minority interest at September 30, 2005 was $496,098.

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 quarter ended September 30, 2005, the subsidiary had net income of $787,960, of which $221,653 was recorded against the minority interest. The balance of the minority interest at September 30, 2005 was $221,653.

NOTE 12 - 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 has recorded this as a contra-account against the loan balance and is amortizing the beneficial conversion feature over the life of the loan. The net balance at September 30, 2005, is $94,745.

Under the terms of the Bridge Loan agreements, and supplements thereto, the debentures bear 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 is 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.

During the quarter ended September 30, 2005, one of the convertible debenture holders elected to convert its note into common stock. The total of the note converted was $50,000 and the Company issued 26,882 shares of its common stock to the note holder.

In addition, each debenture holder is 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 is 322,582. The warrants expire in five years and have an exercise price of $3.30 per share. The fair value of the warrants will be calculated and recorded using the Black-Scholes method at the time of granting, when the debenture is converted. During the three months ended September 30, 2005, one debenture holders converted its note into common stock. As part of the conversion, warrants to purchase a total of 13,441 common shares were issued to the note holders. The warrants were valued using the fair value method at $9,489 and was recorded as an expense in the accompanying consolidated financial statements.

NOTE 13 - GAIN ON SETTLEMENT OF DEBT

In September 2004, the Company transferred 24,004 of its treasury shares valued at $45,965 to Brobeck Phleger & Harrison, LLC, in exchange of debt, as part of the settlement agreement. The Company recorded a gain of $8,285 on the settlement.

During the quarter ended September 30, 2004, the Company evaluated the liabilities of its discontinued operations and determined that $41,989 was no longer payable. The Company recorded a gain of $41,989 as a result of the write-off of these liabilities from its financial statements.

NOTE 14 - 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.

The following is the proforma financial information of the Company for the three

months ended September 30, 2004 assuming the transaction had been consummated at the beginning of the fiscal year ended June 30, 2005:

	For the three months ended Sept. 30, 2004 (Unaudited)
STATEMENT OF OPERATIONS:	
Revenues	$3,188,757
Cost of Sales	1,503,358
Gross Profit	1,685,399
Operating Expenses	1,567,915
Income (loss) from operations	117,484
Other income and (expenses)	1,991
Income (loss) before minority interest	119,475
Minority interest in subsidiary	15,068
Net Income (loss)	$ 134,543
Earnings Per Share:	
Basic	$ 0.01
Diluted	$ 0.01

NOTE 15 - SUBSEQUENT EVENTS

In October 2005, the note payable and related accrued interest to Maxim was settled with $50,000 cash and 36,607 shares of the Company's common stock with a fair market value of $68,453. In addition, 27,231 shares with a fair market value of $50,923 was issued for the payment of past due invoices. There was no gain or loss recorded on this transaction.

NOTE 16 - RESTATEMENT

Subsequent to the issuance of the Company's financial statements as of and for the three months ended September 30, 2004, the Company determined that certain transactions and presentation in the financial statements had not been accounted for properly in the Company's financial statements. Specifically, the amount of impairment of goodwill was over-recorded and classified as amortization expense. In addition, the beneficial conversion feature of the convertible debenture was overstated and loans to officers hadn't been properly reflected on the financial statements and the exercise of options against these loans had been recorded as receivables as of June 30, 2004.

The Company has restated its financial statements for these adjustments as of September 30, 2004.

The effect of the correction of the error is as follows:

	AS PREVIOUSLY REPORTED	AS RESTATED
BALANCE SHEET	As of September 30, 2004	
Assets:		
Other current assets	$ 718,134	$ 708,773
Goodwill	$ 831,594	$ 1,166,612
Total intangibles	$ 3,731,015	$ 4,066,033
Total assets	$ 11,687,755	$ 12,013,411
Liabilities:		
Due to officers	$ --	$ 35,969
Convertible debenture payable	$ 825,000	$ 872,743
Total liabilities	$ 3,674,844	$ 3,758,555
Stockholder's Equity:		
Additional paid-in capital	$ 39,621,500	$ 39,343,344
Stock subscription receivable	$ (458,809)	$ (313,650)
Other comprehensive loss	$ (233,899)	$ (357,250)
Accumulated deficit	$(31,340,872)	$(30,842,579)
Total stockholder's equity	$ 7,826,296	$ 8,068,241
STATEMENT OF OPERATIONS:	For the three months ended September 30, 2004	
Cost of revenues	$ 751,647	$ 762,268
Gross profit	$ 1,306,658	$ 1,296,037
Depreciation and amortization	$ 413,824	$ 295,537
Total operating expenses	$ 1,272,258	$ 1,153,971
Income (loss) from operations	$ 34,400	$ 142,066
Other income and (expense)	$ 22,335	$ 20,044
Net income (loss)	$ 34,358	$ 139,733
Net income (loss) per share:		
Basic	$ 0.00	$ 0.01
Diluted	$ 0.00	$ 0.01

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion is intended to assist in an understanding of the Company's financial position and results of operations for the quarter ending September 30, 2005.

Forward-Looking Information.

This report contains certain forward-looking statements and information relating to the Company that is based on the beliefs of its management as well as assumptions made by and information currently available to its management. When used in this report, the words "anticipate", "believe", "estimate", "expect", "intend", "plan", and similar expressions as they relate to the Company or its management, are intended to identify forward-looking statements. These

statements reflect management's current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this report as anticipated, estimated or expected. The Company's realization of its business aims could be materially and adversely affected by any technical or other problems in, or difficulties with, planned funding and technologies, third party technologies which render the Company's technologies obsolete, the unavailability of required third party technology licenses on commercially reasonable terms, the loss of key research and development personnel, the inability or failure to recruit and retain qualified research and development personnel, or the adoption of technology standards which are different from technologies around which the Company's business ultimately is built. The Company does not intend to update these forward-looking statements.

INTRODUCTION

NetSol is an end-to-end information technology ("IT") and business consulting services provider for the lease and finance, banking and financial services industries. We operate on a global basis with locations in the U.S., Europe, East Asia and Asia Pacific. We help our clients identify, evaluate, and implement technology solutions to meet their most critical business challenges and maximize their bottom line. Our products include sophisticated software applications for the asset-based lease and finance industry. By utilizing our worldwide resources, we believe we are able to deliver high quality, cost-effective IT services, ranging from consulting and application development to systems integration and outsourcing. We have achieved the ISO 9001 and SEI (Software Engineering Institute) Capable Maturity Model ("CMM") Level 3 certifications. Additionally, through our IP Backbone, located in Karachi, Pakistan, we offer a package of wireless broadband services, which include high-speed Internet access, support and maintenance.

Our subsidiary, Network Technologies Pvt. Ltd., a Pakistan Limited Company, ("NetSol PK"), develops the majority of our software. NetSol PK was the first company in Pakistan to achieve the ISO 9001 and SEI CMM Level 4 software development assessment. As maintained by the SEI, maturity levels measure the maturity of a software company's methodology that in turn ensures enhanced product quality resulting in faster project turn-a-round and a shortened time to market. In July 2005, NetSol PK completed a listing of its shares on the Karachi Stock Exchange.

During recent years, we have focused on developing software applications for the leasing and financial service industries. In late 2002, we launched a new suite of software products under the name LeaseSoft. The LeaseSoft suite is comprised of four major integrated asset based leasing/financing software applications. The suite, consisting of a Credit Application Creation System (LeaseSoft.CAC), a Credit Application Processing System (LeaseSoft.CAP), a Contract Activation & Management System (LeaseSoft.CAM) and a Wholesale Finance System (LeaseSoft.WFS), whether used alone or together, provides the user with an opportunity to address specific sub-domains of the leasing/financing cycle from the credit approval process through the tracking of the finance contract and asset.

In February 2005, we acquired 100% of CQ Systems Ltd., an IT products and service company based in the UK. As a result of this acquisition, we have access to a broad European customer base using IT solutions complementary to NetSol's LeaseSoft product. We plan to leverage CQ Systems' 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 us gain immediate recognition and positioning for the LeaseSoft suite of products. CQ provides sophisticated accounting and administrative software, along with associated services, to leasing and finance companies located in

Europe, Asia and Africa. The products include software modules for asset finance, consumer finance, motor finance, general finance and insurance premium finance. The modules provide an end-to-end contractual solution - from underwriting, contract administration and accounting, through asset disposal and remarketing. Customers include notable European companies such as Scania Finance GB, DaimlerChrysler Services, Broadcastle PLC, Bank of Scotland Equipment Finance and Deutsche Leasing Ltd.

Together with this focus on providing an outsourcing, off-shore solution to existing and new customers, NetSol has also adopted a dynamic growth strategy through accretive acquisitions.

PLAN OF OPERATIONS

Management has set the following new goals for NetSol's next 12 months.

Initiatives and Investment to Grow Capabilities

- Achieve CMM Level 5 Accreditation in 2005-2006.
- Enhance Software Design, Engineering and Service Delivery Capabilities by increasing investment in training and development.
- Enhance and invest in R&D or between 7-10% of yearly budgets in financial, banking and various other domains within NetSol's core competencies.
- Aggressively expand the sales and marketing organization in all key locations by hiring senior and successful personnel.
- Recruit additional senior level Managers both in Lahore, China and UK to be able to support potential new customers from the North American, Asia Pacific and European markets.
- Aggressively exploit the booming Chinese market by strengthening NetSol's presence in China.
- Launch its marketing presence in the US markets through M&A activities in the domain of our core competencies.
- Replicate the successful acquisition model and integration of CQ Systems in the USA.
- Formally launch LeaseSoft under the combined banner of NetSol CQ in Europe in November 2005.
- Re-brand NetSol and CQ product line with new marketing packaging and branding for global marketing
- Increase Capex to enhance Communications and Development Infrastructure.

Top Line Growth through Investment in aggressively marketing organically and by mergers and acquisition ("M&A") activities:

- Launch LeaseSoft into new markets by assigning new, well-established companies as distributors in Europe, Asia Pacific and North America.
- Aggressive marketing in China for LeaseSoft and related services.
- Expand relationships with key customers in the US, Europe and Asia Pacific.
- Product positioning through alliances, Joint Ventures and partnerships.
- Focus on key new fortune 1000 customers globally and grow within existing key customers.
- Aggressively bid and participate in $5MN plus projects in UK and Asia Pacific by leveraging NetSol CQ as combined asset.
- Embark on roll up strategy by broadening M&A activities broadly in

the software development domain.

- Enhance the sales and marketing organization by hiring new key executives in the US, UK and Asia.

Funding and Investor Relations:

- Effectively raise new capital from most economical and emerging markets to position NetSol for growth to the next level.
- Attract long term institutional investors and partners both in the US and in Asia.
- Infuse new capital from the potential exercise of employee options for business development, enhance balance sheet and further investment in infrastructures.
- Continue to efficiently and prudently manage cash requirements and raise capital from the markets only as it deems absolutely necessary to execute the growth strategy both organically and through acquisitions.
- Enhance the visibility of company's stock to US based amongst small to mid sized funds, institutional investors, market makers and research analysts.

Improving the Bottom Line:

- Continue to review costs at every level to consolidate and enhance operating efficiencies.
- Grow process automation.

- Profit Centric Management Incentives.
- More local empowerment and P&L Ownership in each Country Office.
- Improve productivity at the development facility and business development activities.
- Cost efficient management of every operation and continue further consolidation to improve bottom line.
- Integrate and centralize the US headquarters and Australian operations and improve the costs and bottom line.

Management believes that NetSol is in a position to derive higher productivity based on current capital employed.

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 CMM Level 2 in early 2002. In a quest to continuously improve its quality standards, NetSol reached CMM Level 3 assessment in July 2003. According to the website of SEI of Carnegie Mellon University, USA, only a few software companies in the world have announced their assessment of level 3. As a result of achieving CMM level 4, NetSol is experiencing a growing demand for its products and alliances from blue chip companies worldwide. NetSol is now aiming for CMM level 5, the highest CMM level in the next year. NetSol plans to further enhance its capabilities by creating similar development engines in other Southeast Asian countries with CMM 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 CMM levels of quality standards will provide customers with options and flexibility based on costs and broader access to skills and technology.

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 Global IT budgets are estimated to exceed $1.2 trillion in 2004 and beyond, according to the internal estimates of Intel Corporation. About 50% of this IT budget would be consumed in the US market alone primarily on the people and processes.
- Cost arbitrage, labor costs still very competitive and attractive when compared with India.
- Overall economic expansion worldwide and explosive growth in the merging markets specifically.
- Regional stability and improving political environment between Pakistan and India.
- 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 $13 billion; stabilizing reforms of government and financial institutions; improved credit ratings in the western markets, and elimination of corruption at the highest level.
- Stronger ties between the US and Pakistan creating new investment and trade opportunities.
- Robust growth in outsourcing globally and investment of major US and European corporations in the developing countries.
- Chinese economic boom leading to new market opportunities.

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.
- The devastating earthquake in northern parts of Pakistan may slow growth for local business in the short run.
- Negative perception and image created by extremism and terrorism in the South Asian region.
- Skyrocketing oil prices and unfortunate affects of Hurricane Katrina on US economy.
- Continuous impact of Iraq war on US and global economy.

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 the Company 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 the Company. 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. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" 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. 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 fiscal year 2005, we estimated the allowance on net deferred tax assets to be one hundred percent of the net deferred tax assets.

CHANGES IN FINANCIAL CONDITION

QUARTER ENDED SEPTEMBER 30, 2005 AS COMPARED TO THE QUARTER ENDED SEPTEMBER 30, 2004:

Net revenues for the quarter ended September 30, 2005 were $4,469,985 as compared to $2,058,305 for the quarter ended September 30, 2004. Net revenues are broken out among the subsidiaries as follows:

	2005	2004
Netsol USA	$ --	$ 170,134
Netsol Tech	1,662,351	1,113,859
Netsol Private	477,186	302,809
Netsol Connect	252,337	268,334
Netsol-TiG	345,705	--
Netsol UK	238,672	172,261
CQ Systems	1,406,011	--
Netsol-Abraxas Australia	87,723	30,908
Total Net Revenues	$4,469,985	$2,058,305

This reflects an increase of $2,411,680 or 117% in the current quarter as compared to the quarter ended September 30, 2004. The increase is attributable mostly to growth in services business, a full quarter of revenues attributed by

the newly acquired CQ Systems in UK, growing outsourcing business of NetSol-TIG (JV) and additional maintenance work. The Company's biggest revenue growth was achieved in all three of its Pakistan based subsidiaries, which generated sales both domestically and internationally. The Company has experienced solid and consistent demand for IT services in the domestic sectors of Pakistan.

NetSol made a significant move by acquiring 100% of a UK based software company CQ Systems Ltd. in February 2005. The acquisition of CQ Systems has provided NetSol a very strong and seasoned management team with a mature, profitable, business.

The Company added a few major new customers such as DaimlerChrysler in China, Japan, and New Zealand and Toyota Leasing Thailand and China. 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 2005. The most significant of all was the joint venture with a UK based company, The Innovation Group ("TiG"). NetSol owns 51% of this new entity while TIG owns 49%. The partnership is designed to outsource the global IT projects of TiG to NetSol in Pakistan.

NetSol's global frame agreement with DaimlerChrysler Services ("DCS") qualifies NetSol as a preferred vendor to DCS in 40 plus countries where DCS operates. As a direct result of the successful implementations of some of our current systems with DaimlerChrysler and the signing of the global frame agreement, we are noticing a significant increase in demand for LeaseSoft. Although the sales cycle for LeaseSoft is rather long, we are experiencing a 100% increase in product demonstration, evaluation and assessment by blue chip companies in the UK, Australia, Japan, Europe, North America and Pakistan. In fiscal year 2005, NetSol raised the pricing of its LeaseSoft licenses significantly due primarily to a surge in demand. In spring of 2005, one complete system was sold to Toyota Leasing Thailand ("TLT") for nearly $2.3 million that includes over $1.2 million for license fees.

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 fiscal year 2006 that could potentially increase the sales and bottom line. As the Company sells more of these licenses, management believes it is possible that the margins could increase to upward of 70%. The license prices of these products vary from $300,000 to an excess of $1,000,000 with additional charges for customization and maintenance of between 20%-30% each year.

The gross profit was $2,802,635 in the quarter ending September 30, 2005 as compared with $1,296,037 for the same quarter of the previous year for an increase of $905,082. The gross profit percentage remains at approximately 63% in the quarter ended September 30, 2005. In comparison to the prior quarter ended June 30, 2005, the cost of sales decreased approximately $143,528 and revenues increased $4,782 or an overall increase of 3% in gross profit.

Operating expenses were $2,130,429 for the quarter ending September 30, 2005 as compared to $1,153,971, for the corresponding period last year. 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. Depreciation and amortization expense amounted to $552,531 and $295,537 for the quarter ended September 30, 2005 and 2004, respectively, reflecting the

intangible assets purchased from the CQ Systems acquisition in February 2005. Combined salaries and wage costs were $536,376 and $347,237 for the comparable periods, respectively, or an increase of $189,139 from the corresponding period last year. The addition of the new subsidiary, CQ Systems and the forming of the joint-venture with TiG, as well as an increase in development, sales and administration employees resulted in the increase. Approximately 250 new employees were added throughout the Company during the last fiscal year.

Selling and marketing expenses were $318,864 and $119,348, in the quarter ended September 30, 2005 and 2004, respectively, reflecting the growing sales activity of the Company. Professional services expense increased slightly to $123,158 in the quarter ended September 30, 2005, from $114,334 in the corresponding period last year.

Income from operations was $672,206 compared to $142,066 for the quarters ended September 30, 2005 and 2004, respectively. This represents an increase of $530,140 or 373% for the quarter compared with the comparable period in the prior year. This is directly due to improved sales activity.

Net income was $203,745 compared to $139,733 for the quarters ended September 30, 2005 and 2004, respectively. This is an increase of $151,786 or 45.81% compared to the prior year. The current fiscal quarter amount includes a net reduction of $367,213 compared to an add-back of $15,068 in the prior period for the 49.9% minority interest in NetSol Connect and NetSol-TiG owned by another party, and the 28.13% minority interest in NetSol PK. During the current quarter, the Company also recognized an expense of $6,569 compared to $37,500 for the beneficial conversion feature on convertible debentures, an expense of $9,489 compared to $28,024 for the fair market value of warrants issued and a gain of $3,641 compared to $50,274 from the settlement of a debt. Net income per share, basic and diluted, was $0.01 for the quarters ended September 30, 2005 and 2004.

The net EBITDA income was $897,407 compared to $458,359 after amortization and depreciation charges of $552,531 and $295,537, income taxes of $62,108 and $1,514, and interest expense of $79,023 and $21,575, respectively. Although the net EBITDA income is a non-GAAP measure of performance we are providing it for the benefit of our investors and shareholders to assist them in their decision-making process. The increase in amortization and depreciation is mostly attributed to the amortization of the intangible assets acquired in the purchase of CQ Systems.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position was $1,469,154 at September 30, 2005 compared to $204,850 at September 30, 2004. In addition the Company had $2,487,577 in certificates of deposit in the form of short-term investment accounts. The total cash position, including the certificates of deposits, was $3,956,731 as of September 30, 2005.

Net cash used for operating activities amounted to $1,106,844 for the quarter ended September 30, 2005, as compared to $1,062,227 for the comparable period last fiscal year. The increase is mainly due to an increase in prepaid expenses and other assets.

Net cash used by investing activities amounted to $3,220,571 for the quarter

ended September 30, 2005, as compared to provided by $236,614 for the comparable period last fiscal year. The difference lies primarily in the increase in net purchases of certificates of deposits in the current fiscal year of $2,282,097 compared to net proceeds of $250,000 in the prior year. In addition, the Company had net purchases of property and equipment of $726,630 compared to $127,002 for the comparable period last fiscal year.

Net cash provided by financing activities amounted to $4,410,299 and $137,329 for the quarters ended September 30, 2005, and 2004, respectively. The quarter ended September 30, 2005 included the cash inflow of $0 compared to $220,000 from issuance of equity and $288,062 compared to $0 from the exercising of stock options and warrants. In the current fiscal period, the Company had net proceeds on loans and capital leases of $91,236 as compared to net payments of $30,967 in the comparable period last year. In addition, 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.

The Company plans on pursuing various and feasible means of raising new funding to expand its infrastructure, enhance product offerings and beef up 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. Management feels that a major requirement of institutional investors is a much stronger balance sheet and a healthy cash position.

Management expects to continue to improve its cash position in the current and future quarters due to the new business signed up in the last quarter. In addition, the Company anticipates additional exercises of employee stock options in the current and subsequent quarters. The Company has consistently improved its cash position in last four quarters through employees' exercise of options, the IPO of the Pakistani subsidiary, private placements, and the signing of new business. We anticipate this trend to continue in the current and future quarters, further improving the cash resources and liquidity position. Management is committed to implementing the growth business strategy that was ratified by the board of directors in July 2005. The company would continue to inject new capital towards expansion, grow sales and marketing and further enhancement of delivery capabilities.

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:

- In next 6 months the final payment of CQ Systems would be due based on the formula of "earn out". This could be in the range of $1.0MN to $3.7MN
- Notes payable for approximately $800,000
- Working capital of $1.0 million for 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 the following methods: equity based financing; warrant and option exercises. We would, however, use some of our internal cash flow to meet certain obligations as mentioned above.

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 raise new capital through other sources such as secured long term debt.

- Analysis of the cost of raising capital in the U.S., Europe or emerging markets. By way of example only, if the cost of raising capital is high in one market and it may negatively affect the company's stock performance, we may explore options available in other markets.

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

ITEM 3. CONTROLS AND PROCEDURES

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

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES.

In August 2005, we issued 26,882 shares as conversion of a convertible debenture originally issued to this investor in March 2004. The original issuance of the convertible debenture and the issuance of these shares were made in reliance on an exemption from registration available under Rule 506 of Regulation D of the Securities Act of 1933, as amended (the "Act").

In August, 2005, we issued a total of 28,000 shares to 3 directors of the Company as compensation for board service during the July 2004 to June 2005 period. Two of these directors are accredited U.S. residents and the issuance to them was made in reliance on an exemption from registration under Section 4(2)

of the Act. One of the directors is an accredited non-U.S. resident and the issuance to him was made in reliance on an exemption from registration available under Regulation S of the Act.

In August 2005, we issued 2,500 shares to an employee and officer of the Company as compensation for service rendered. The issuance to this employee was made in reliance on an exemption from registration under Section 4(2) of the Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS:

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO)
31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO)
32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)
32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO)

REPORTS ON FORM 8-K.

a) On July 14, 2005, NetSol Technologies, Inc. filed an amended 8-K to a previous 8-K filed on January 29, 2005. This amendment included the financial statements for CQ Systems Ltd for the period ended March 31, 2004 and a revised auditor's report.

b) On July 15, 2005, NetSol Technologies, Inc. filed an 8-K reporting that it had issued a press release announcing that it expects to meet is financial guidance for the year ended June 30, 2005.

c) On July 21, 2005, NetSol Technologies filed an 8-K reporting that Mr. Najeeb Ghauri had resigned as Chief Financial Officer of the Company and that Ms. Tina Gilger was appointed as his replacement.

d) On September 15, 2005, NetSol Technologies filed an 8-K reporting that it had issued press released announcing its results of operations for the period ending June 30, 2005 and providing guidance for the next fiscal year.

SIGNATURES

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

duly authorized.

NETSOL TECHNOLOGIES, INC.

Date: November 10, 2005

/s/ Naeem Ghauri

NAEEM GHAURI
Chief Executive Officer

Date: November 10, 2005

/s/Tina Gilger

TINA GILGER
Chief Financial Officer