

NETSOL TECHNOLOGIES INC
Form 10KSB/A
November 26, 2008

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

FORM 10-KSB/A

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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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. x

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

Registrant's revenues for the fiscal year ended June 30, 2008 were \$36,642,175.

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$50,705,662 as of September 15, 2008.

As of September 15, 2008, Registrant had 26,419,770 shares of its \$.001 par value Common Stock issued and outstanding and 1,920 shares of its Preferred Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(None)

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

This Amendment to the Annual Report filed on form 10-KSB for the year ended June 30, 2008 is being made to correct the language of disclosures contained in Item 8A. The changes in this amendment are contained in Item 8A only. There are no other changes in the documents.

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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") (NasdaqCM: NTWK) (DIFX: NTWK) is a worldwide provider of global business services and enterprise application solutions. NetSol uses its BestShoring™ practices and highly-experienced resources in analysis, development, quality assurance, and implementation to deliver high-quality, cost-effective solutions. Organized into specialized practices, these product and services offerings include portfolio management systems for the financial services industry, consulting, custom development, systems integration, and technical services for the global Healthcare, Insurance, Real Estate, and Technology markets. NetSol's commitment to quality is demonstrated by its achievement of the ISO 9001, ISO 279001, and SEI (Software Engineering Institute, Carnegie Mellon University, USA) CMMi (Capability Maturity Model) Level 5 assessments, a distinction shared by fewer than 100 companies worldwide. NetSol's clients include Fortune 500 manufacturers, global automakers, financial institutions, technology providers, and governmental agencies.

Founded in 1996, NetSol is headquartered in Calabasas, California. NetSol also has operations and/or offices in: Horsham, United Kingdom; the San Francisco Bay Area, California, USA; Sydney and Adelaide, Australia; Beijing, China; Lahore, Islamabad, Rawalpindi and Karachi, Pakistan; and, Bangkok, Thailand.

OUR BUSINESS

In today's highly competitive marketplace, business executives with labor or services-centric budgetary responsibilities are not just encouraged but are, in fact, obliged to engage in "Make or Buy" decision process when contemplating how to support and staff new development, testing, services support and delivery activities. The Company has initiated the strategic evolution of its business offerings that is a BestShoring™ solutions strategy. BestShoring™ is simply defined as NetSol Technologies' ability to draw upon its global resource base and construct the best possible solution and price for each and every customer. Unlike traditional outsourcing offshore vendors, NetSol draws upon an international workforce and delivery capability to ensure a "BestShoring™ delivers BestSolution™" approach.

NetSol combines domain expertise, not only with lowest cost blended rates from its design centers and campuses located around the world, but also with the guarantee of localized program and project management while minimizing any implementation risk associated with a single service center. Our BestShoring™ approach, which we consider a unique and cost effective global development model, is leading the way into the 21st century, providing value added Solutions for Global Business Services through a win-win partnership, rather than the traditional outsourced vendor framework. Our focus "Solutions" serves to ensure the most favorable pricing while delivering in-depth domain experience. NetSol currently has locations in Bangkok, Beijing, Lahore, London, the San Francisco Bay Area, and Sydney to best serve its clients and partners worldwide. This provides NetSol customers with the optimum balance of subject matter expertise, in-depth domain experience, and cost effective labor, all merged into a scalable solution. In this way, "BestShoring delivers BestSolution".

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

In addition to services, our product offerings are fashioned to provide a Best Product for Best Solution model. Our offerings include our flagship global solution, LeaseSoft. 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. 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. 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. As with our service offerings, LeaseSoft is complementary to and can be used with all of our regionally developed solutions such as LeasePak in North America and LeaseSoft Asset in Europe.

Beyond LeaseSoft, our product offerings include LeasePak. LeasePak provides the leasing technology industry with the development of Web-enabled and Web-based tools to deliver superior customer service, reduce operating costs, streamline the lease management lifecycle, and support collaboration with origination channel and asset partners. LeasePak can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. And for scalability, NetSol Technologies North America 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.

Our product offerings and services also include: inBanking, which provides full process automation and decision support in the front, middle and back offices of treasury and capital markets operations; LeaseSoft Portals and Modules through our European operations; LeasePak 6.0b of our LeasePak product suite; enterprise wide information systems, such as or LRMIS, MTMIS and Hospital Management Systems; Accounting Outsourcing Services, and, NetSol Technology Institute, our specialized career and technology program in Pakistan.

The Company continues its efforts to reduce redundancy and cohesively present services and product operations on a global basis. This consolidation enables the Company to coordinate and streamline product, service and marketing while taking further advantage of the cost arbitrage offered by our highly trained, highly productive, Pakistani resources. This consolidation follows the successful integration of the operations acquired in the United Kingdom and the San Francisco Bay Area in California and facilitates the use of these regional offices as platforms for presenting an expanding services offering, relying on the experience and resources in Pakistan and our product offerings in North America and Europe.

While the company will no longer be divided into groups and regions, the Company will continue to maintain regional offices in the San Francisco Bay Area, California for North America and the parent headquarters in Calabasas, California; in Horsham, United Kingdom, for Europe; a new office in Dubai, United Arab Emirates for the Middle East; and, our "center of excellence" operations in Lahore, Pakistan for Asia Pacific. The Company will continue to maintain country and/or services or products specific sales offices in China, Australia, Thailand and Pakistan.

Our Services

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; Global Business Services; NetSol Defense Division; Business Intelligence, Information Security, Outsourcing Services and Software Process Improvement Consulting; maintenance and support of existing systems; and, project management.

As part of the Company's Global Business Services strategy, each subsidiary adheres to the BestShoring provides BestSolutions™ model. Each subsidiary expounds on that model by providing services unique to their client base. The development of solutions for clients has resulted in the development of vertical offerings catering to various industries and accordingly, diversifying NetSol's offerings. As an example, these verticals have been used successfully in Pakistan to provide services for the Motor Transport Management System, Land Record Management System, Legislature, Healthcare, computer based trainings/e-Learning, E Government and Defense.

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 pains 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. In addition, the accord has introduced a capital charge for operational risk. NetSol won a Basel II Consultancy Contract with a leading Bank in Pakistan, the contract covers advisory services concerning conformity to the Basel II Capital Accord Regulatory Framework development by the Bank for International Settlements (BIS).

An ever growing awareness of highly publicized IT Security problems, coupled with greater demands by international business partners, has led the movement of companies world-wide towards compliance with internationally recognized Information Security Systems standards. Information Systems Security or Information Assurance applies to all systems in all departments of an organization whether on a computer disk, paper or in the heads of employees. Information Security services is provided by NetSol's 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. The INFOSEC group has launched a new project, Secure Pakistan. The project aims to secure critical information, while in storage or in transfer, from theft. Secure Pakistan is developing IT service labs for forensic investigation, CERT (Computer Emergency Response Team), 24/7 security surveillance, and cyber crime awareness training. NetSol has established partnerships with other global information security consulting companies, including US based Business Automation Consultants, Australia based IT Butler, and Pakistan based NIMIS. INFOSEC is partnered with global giants including IBM Internet Security Systems and Kaspersky Labs.

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. The services include: consultancy, facilitation services and implementation support for CMMi; appraisal, including SCAMPI (Standard CMMi Appraisal Method for Process Improvement), SCAMPI Appraisal Team Member Training and, Pre Appraisal; and, training through training services, formal courses, workshops and seminars. All of these activities are broadly developed under the guidelines of SEI based CMMi processes as well as the information security consulting practices. Currently, NetSol is the only company authorized by Pakistan Software Export Board (PSEB) for BS7799/ISO 27001 consulting practices in Pakistan.

Our Outsourcing Services have included two major initiatives: the joint venture with Innovation Group PLC (previously referred to as "TiG"), known as NetSol Innovation Pvt. Ltd, or Extended Innovation, and accounting outsourcing services. The Extended Innovation model is discussed on page 12 of this report. NetSol Accounting Services Division was established to take advantage of the lucrative BPO market for accounting services. The division started operations with a pilot project for a well established and high profile accountancy firm in Australia. A proof of concept has been obtained, and NetSol is now in the process of marketing and maturing leads from high profile clients

in Australia, North America and Europe.

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The NetSol Defense Division (NDD) was founded in 2005 to take advantage of its coordination with the Pakistani Defense Sector. NDD specializes in providing solutions for improvement and optimization of operations of the defense and military forces. With a unique blend of experienced and highly skilled IT specialists and managers, and most importantly the domain experts from the Defense Sector itself, NDD has the critical task of ensuring that the solutions provided are focused and need-specific to the requirements as well as the technological advancements in the sector around the globe. Operating through the NDD R&D Lab, which is strategically located in Rawalpindi, for closer coordination with various defense organizations stakeholders and to establish an operations center and simulation lab, NDD is involved in R&D activities, as well as project management for various on-going and potential projects including Command & Control Applications, Capacity Building projects, Infrastructure development for multiple offices within the Ministry of Defense as well as GIS based applications integration with different solutions. Projects currently undertaken by NDD are: 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.

Our Products

LeaseSoft

The Company develops advanced software systems for the lease and finance industries. In addition to services, our product offerings are fashioned to provide a Best Product for Best Solution model. Our offerings include our flagship global solution, LeaseSoft. This product is complementary to and can be used with all of our regionally developed solutions such as LeasePak in North America and LeaseSoft Asset in Europe.

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 Company's over eight years of effort resulted in over 60 modules grouped in four comprehensive applications. 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. 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 automated 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. It can be run from any PC with normal specifications, which is a key benefit for clients.

· 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. A separate online add-on module, Dealer & Auditor Access System (DAS), allows dealers to view their outstanding limits and current asset-wise balances through an interface with the finance company. LeaseSoft.WFS consists of the following four modules: Credit Request Management Module (CRM); Loan Management Module (LMS); Stock Auditing Module (SAS); and Billing & Settlement Module (B&S).

· Fleet Management System (FMS). LeaseSoft.FMS is designed to efficiently handle all fleet management needs. FMS is easily integrated with LeaseSoft.CMS 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. Although only recently added, NetSol has already signed an agreement for FMS with a major automotive company in the Asia Pacific region.

Implementation Process

The implementation process normally spans 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. With the maturing of our products, free requirement studies tend to yield few, if any gaps. The development cycle that follows the gaps analysis takes place through our development facility in Lahore. The highly parameterized LeaseSoft solutions are configured to meet the clients' requirements. This is followed by thorough testing, which takes place at our development facility, while some of these steps may also be carried out at the clients' locations. Based on successful testing, the system is installed at the client's site. When required, this involves migration of data from an older system to the LeaseSoft database. Successful installation is followed by user and administration training. Both functional and business users are involved. After training, user acceptance testing is conducted, where client's nominated staff, along with NetSol consultants, tests the system against business requirements. Upon acceptance, the systems are then considered ready for normal business use. LeaseSoft is a mission critical software, and the entire business operations of our clients hinge on successful 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. NetSol's involvement in all of the above steps is priced to bring value to our customers and increase our profitability from our interactions.

Pricing and Revenue Streams

The company's LeaseSoft revenue streams occur through the following three main areas: product licensing, implementation related services, and maintenance and support related services. License fees can vary generally between \$500,000 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 collectability is probable. However, revenue from sale of licenses with major customization, modification, and development is recognized on a percent of completion basis. Implementation related services, including gap analysis, user acceptance testing (UAT) and data migration (where required). Maintenance and support related services are then provided on a continued 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 a yearly basis.

Growth Prospects for LeaseSoft

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

An important component of the growth strategy for LeaseSoft is to extend its customer base to include newer geographic markets. The belief that it is a highly flexible solution for the global markets is borne out by this year's major breakthrough of the product's entry into the Middle East market with the signing of a contract with one of the largest leasing companies in the region. Al Amthal Leasing is the latest addition to our impressive customer list. The Company sees this as a first major step in developing a market for LeaseSoft in the Middle East. This will also help our product achieve a greater relevance to this market by incorporating features that correspond to the Islamic/Arab financial requirements.

In its existing markets, LeaseSoft is already establishing itself as a leading product catering to the business needs of major blue chip companies. Its current client base includes Mercedes Benz Financial Services (Australia, Japan, New Zealand, Singapore, South Korea, Thailand, China and Taiwan), Yamaha Motors Finance Australia, Toyota Motors Finance China, Toyota Leasing Thailand, Finlease Commercial Bank of Mauritius, CNH Capital Australia, Fiat Automotive Finance China, Dongfeng Nissan Auto Finance China, BMW Financial Services in China and Al Amthal Leasing Saudi Arabia.

In addition to the confidence of its customers, the product has also won a major regional award, the Asia Pacific ICT Alliance Award for the best financial application for the year 2007. This prestigious award is testimony to the maturity and quality of LeaseSoft.

NetSol 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>, respectively.

Our Operations

NETSOL PK

Our off-shore development center, and indeed the center of the Company's services and software operations, is headed by former President of NetSol and current Chief Executive Officer of NetSol Technologies Limited ("NetSol PK") (the Company's Pakistan subsidiary), Salim Ghauri. The Asian continent, Australia/New Zealand, and the Middle East, 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, NetSol PK has continued to provide 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.

IT Consulting & Services

As part of the Company's Global Business Services strategy, each subsidiary adheres to the BestShoring provides BestSolutions™ model. While NetSol PK is the center of the Company's global services offerings, the services provided by NetSol PK further expound on that model and other services unique to NetSol PK. 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. Over the past four years, NetSol PK has been actively involved in the e-government domain helping Federal & Provincial Governments of Pakistan and other public sector organizations. Major projects include: Electronic Credit Information Bureau; Office Automation of the National Assembly & Senate and Prime Minister's Secretariat; and such turn-key solutions as the Automation of the Hajj wing, and, Automation of the Karachi Patent Office. 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, Healthcare, computer based trainings/e-Learning, E Government and Defense.

Products

In addition to LeaseSoft, which has a global reach, NetSol PK has developed several products for use in Pakistan for the purpose of automating the country's vital processes. While developed for this particular market, the products may be used in other countries or for other customers.

LRMIS

In an agricultural country like Pakistan, land is the primary source of revenue. Land records are currently maintained manually so there is no consistency, accuracy and timely availability of the required record. According to a joint report by National Database and Registration Authority (NADRA), Pakistan and World Food Program (WFP), Pakistan, this existing land revenue management system is more than two hundred years old and is not fulfilling the changing demands of time and new local governance system of Devolution properly.

A well planned solution requires easy identification, access, smooth data entry and complete tracking of the entered transactions. With the growth and usage of "e" in contemporary business practices, new challenges have emerged in managing secure access to the authentic data and e-resources, which are scattered across a wide range of internal and external computing systems. This challenge needs quick address in today's competitive economic scenario wherein intellectual and knowledge capital directly translates into exponential growth for the country.

NetSol's LRMIS is a thin, client web based solution and developed after thorough evaluations of existing manual system and client/user needs, detailed system analysis and process flow definition. It ensures that only authentic employees and individuals can access the application on the privileged areas assigned by the administrator over the internet/Intranet. NetSol has obtained the pilot project for LRMIS, a World Bank funded initiative. There is a major upside in Punjab with implementations in 34 districts. Moreover, opportunities exist in Sindh and Islamabad Capital Territory.

NetSol understands the power of information and complexity of land record system and the user/client needs. For this purpose, NetSol provides its LRMIS by combining technical, operational and domain expertise with proven approaches of analysis, plan, design and implementation to provide an effective solution using IT-enablement in a field where its need its hugely felt.

MTMIS

A few years ago, NetSol PK took the initiative to invest into the Motor Transport domain. Starting with a small implementation, today NetSol has multiple implementations in several parts of the country with ample opportunities available in the future. MTMIS is a customized application envisioned and developed wholly by NetSol as an end-to-end solution of citizens' vehicles security and information management. Project implementations include the Provinces of Punjab, AJK and NWFP alongside Islamabad Capital Territory. Future opportunities exist in Baluchistan and Sindh for this solution. The system has provision for onsite access to the traffic police records via PDAs and smart cards, onsite verification of any vehicle's environmental friendly status and road side authorization of driver licenses.

It is significant to note that while in developed countries the elements of the system lie in "islands of data" under the various Authorities and Geographical Domains and have been linked together to create the central data warehouse; the NetSol solution is the first concept and proven practical solution for the Emerging and Developing countries. It enables an approach, which seeks to introduce and implement the different elements or modules as an integrated and total solution, in which modules have been clearly designed to work independently but enmesh and provide the complete management and administration environment.

HOSPITAL MANAGEMENT INFORMATION SYSTEM.

The global healthcare industry is growing at a fast rate and is one of the areas that have the most urgent need of automation. NetSol understands this need and has developed a strategic collaboration with Shaukat Khanum Memorial Cancer Hospital as part of a long term commitment for IT development in the global Health Sector.

The capability to overlay, analyze, design and reengineer the core of the healthcare processes with a business process management (BPM) suite, encompassing the rules and responsibilities in a manner which facilitates change, new rules, process variations, and scale of deployment, best summarize our combined approach.

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NetSol regularly works to fulfill its role as a Technology Partner of the Shaukat Khanum Memorial Cancer Hospital & Research Centre (SKMCH&RC) for a solution that will act as an automated, secure and integrated solution for any hospitals' clinical, financial and management needs. First implementation is currently underway for a hospital for the armed forces. NetSol's system includes a clinical module (including outpatient and inpatient management, physician and order management, pharmacy management, radiology, nuclear medicine, pathology and operation theater management); an administrative module; a financial module; and, a research module.

Corporate Social Responsibility

Literacy Program--NetSol has launched a "Literacy Program" to educate low paid illiterate employees of the organization. The main objective of this program is to enable these resources to acquire basic reading, writing and arithmetic skills. The first phase of the plan is nearing completion with astounding accomplishments; the people who could not even write a single word are now able to write complete letters within a span of 6 months. This initiative has been extremely successful and NetSol intends to further support this program.

Noble Cause Fund--A noble cause fund has been established to meet medical and education expenses of the children of the low paid employees. NetSol employees voluntarily contribute a fixed amount every month to the fund and the Company matches the employee subscriptions with an equivalent amount contribution. A portion of this fund is utilized to support social needs of certain institutions and individuals, outside NetSol.

Day Care Facility--NetSol's human resources are its key assets and thus the company takes numerous steps to ensure provision of maximum comforts. Recently, a Child Day Care facility has been created in close proximity to work premises with all essential staff and equipment. Married female employees are offered opportunity to entrust complete care of their young ones to trained and experienced staff. Child day care allows female employees to pay unhindered focused attention to work requirements while their child remain safe and comfortable. Premises and environment are neat and clean with all basic needs fulfilled to ensure complete care of the children.

Preventative Health Care Program--In addition to the comprehensive out-patient and in-patient medical benefits, preventive health care has also been introduced. This phased program focuses on vaccination of our employees against Hepatitis – A/B, Tetanus, Typhoid and Flu, etc. This is a regular annual immunization program to keep employees healthy.

NetSol Corporate University--This year, NetSol undertook a new initiative by establishing NetSol Corporate University ("NCU") for developing human resources at NetSol. A need was felt to further develop and retain the talent at hand through strategic learning interventions to respond to growing competition and challenges.

The mission of NCU is:

- § To discover, develop, and deploy the talent at Netsol
- § To nurture leadership in people and processes
- § To explore and develop capable backups for positions critical to organizational continuity

NETSOL TECHNOLOGIES NORTH AMERICA, INC.

The operational assets of NetSol Technologies North America, Inc. (“NTNA”) were initially integrated into the Company in 2006 as a result of the acquisition of McCue Systems, Inc. The NTNA division has been headed by Mitch Van Wye as Chief Operating Officer since October 2007. The division has been restructured and reorganized both at the management and business levels with several new senior sales and marketing personnel replacing less senior personnel in the third and fourth quarters of 2008. With the formal integration and better positioning into the global market complete, the Burlingame staff is now moving to newly leased offices in Emeryville, California by Fall 2008.

NTNA provides client requirement-based solutions across multiple technology practices, in both the public and private sectors, with the largest practice being the leasing technology vertical. NTNA offers 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. NTNA’s product, LeasePak, can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. For scalability, NTNA offers LeasePak 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 Hyundai, JP Morgan/Chase, KeyCorp Leasing, City National Bank, Terex Corp., National City Capital Corp., ORIX, and Volkswagen Credit.

Services

NTNA has released a full suite of Global Business Services outsourcing services and customized development solutions, initially focused on 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 NTNA 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 Global Business 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.

In leveraging the Company’s global footprint, blue chip customer base and BestShoring initiatives, we believe NTNA provides an integrated North American presence to our global offering of software and services based solutions 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.

LeasePak

As part of NetSol’s Financial Suite (NFS) of products, NTNA has and continues to develop the LeasePak Productivity modules 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 early 2008, LeasePak 6.0b was released for general availability and has gone into production.

The components of the LeasePak Productivity Suite include but not limited to:

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 6.0b, users have new options for navigation and reporting. Additionally, new capabilities have been incorporated into the product: Business Development Module which streamlines the exchange of aggregated finance contract portfolios between LeasePak users; Commercial Lending Module which adds core functionality for the management of commercial loans; and, Asset Focus Module which provides new options for users to enhance asset accounting and reporting options.

NETSOL TECHNOLOGIES EUROPE, LTD.

Headed by Naeem Ghauri as President and as a director of NetSol, NetSol Technologies Europe, Ltd (“NetSol Europe”) has been an integral part of the Company since February 2005 when NetSol acquired 100% of CQ Systems Ltd., (“NTE”) 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 has leveraged NTE’s knowledge base and strong presence in the Asset Finance market to launch LeaseSoft in the UK and continental Europe. NTE’s strong sales and marketing capability would further help NetSol gain immediate recognition and positioning for the LeaseSoft suite of products.

Product Portfolio

NTE’s recent LeaseSoft win with a major European bank is a strong vindication of our strategy to leverage our global expertise to develop and market regional solutions while successfully servicing our clients’ specific needs. Our LeaseSoft solutions, with enhanced business coverage for the European markets, are geared to provide a quick return on investment to our clients as well as generate a new revenue driver for the group. The new European LeaseSoft multi-product portfolio has gathered strong initial traction, in a relatively short time, and reflects the growing strength of our product and customer presence in Europe.

A part of NTE’s successful 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 NTE product suite and most of the quality assurance, documentation and some of the NTE products core software development activities have been transitioned to Lahore. NTE 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.

Like all NetSol companies, NTE 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 NTE came from products which did not exist when the company 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. NTE'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 NTE has implemented.

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In addition to offering all NetSol products, NTE products include: 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; and, Evolve- launched to provide an entry level software package for own book brokerages and small to medium size funders.

NTE has recently performed significant updates on the Core product and customer systems to ensure compliance with the onerous CCA2006 legislation. NTE has further implemented significant development enhancements, including a major development for the collections module with significant automation of the arrears handling and collections.

Enterprise Services

Following the establishment of NTNA's recent services offering, NTE launched its Enterprise Services division this year to leverage both its offshore IT and Business Process Outsourcing capabilities. This move into outsourced services is seen as strategic to the future growth of NetSol.

NetSol office in Beijing, China

As part of its growth strategy and in view of the desire to serve its markets better, NetSol established a sales office in Beijing, China. This office is both a sales and marketing location and a liaison office for the Company's ongoing operations and implementation services for Daimler Financial Services, BMW and other clients in the country. The office is managed by NetSol PK.

NetSol's office in Bangkok, Thailand

To further strengthen its presence in the Asia-Pacific market, and to provide exclusive services to its clients, the company has recently established a support office at a prime location in Bangkok, Thailand. The office has a working area of 87 sq. m. Its core responsibilities are to enhance business through targeting potential customers and providing technical support to the company's existing clients in Thailand.

NetSol Office in Australia

NetSol also maintains a presence in Australia to serve its customers such as Mercedes Benz Financial Services, Yamaha, and few other Fortune 500 auto manufacturers in Australia and New Zealand. Given the potential of this market, and the company's strategic focus on it, it plans to build a bigger presence through a permanent office space.

NetSol Office in the United Arab Emirates

As a follow to NetSol's recent listing of its shares of common stock on the Dubai International Financial Exchange (the "DIFX"), NetSol has committed to opening an office in the United Arab Emirates. The office will operate both as sales and support office for the Company's Middle East customers.

Status of New Products and Services

InBanking™

The Company's banking solution is currently being marketed in the European region by NTE.

With the acquisition of Pearl Treasury System in 2003-2004, whose product offering is now referred to as InBanking™, the Company expands its menu of software into the banking and other financial areas.

The Pearl Treasury System ("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.

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 such as the American Society for Quality for endorsement of our trainings.

To meet the current supply shortage of IT technicians, NTI has initiated an innovative certification called STC to bridge this divide between demand and supply. STC is a fast track, 1 year certification aimed at producing technicians that can be used by the IT industry.

Outsourcing Services-NetSol-Innovation (EI)

In November 2004, the Company entered into a joint venture agreement with the Innovation Group (formerly referred to as TiG), ("TiG") whereby the TIG-NetSol (Pvt) Ltd., now NetSol-Innovation (Pvt) Ltd., ("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. Today, NetSol has developed extensive expertise across the insurance domain and has become a center of excellence.

Initiated with a 10 person outsourcing team in Lahore in February 2005, this arrangement has extended to a 130 person team in June 2008 with the additional resources catering to the increased influx of outsourcing of configuration and testing assignments from Innovation Group. Prominent Innovation Group's customers being serviced from Lahore

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 allows NetSol's human resources to efficiently and effectively respond to additional outsourcing and offshore configuration work.

Growth through Acquisition and Alliance

The acquisitions of CQ Systems, Ltd. in 2005 (now “NTE”) and McCue Systems, Inc. in 2006 (now “NTNA”), finalized 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 provides NetSol with positioning as the only software supplier in the leasing space with a global footprint of installed customers in each geographic region throughout the world. This, together with the visible turnaround in the services and outsourcing sectors in global markets, led to a growth strategy encompassing both organic growth and mergers and acquisitions.

The Company continues to explore mergers and acquisition opportunities with a focus on strategic acquisitions that provide immediate, strong, bottom line benefits. Management believes that an ideal target will fulfill one or many of these criteria: geographic synergy/providing a foot print in a market; unique and/or complimentary product lines; provide additional, and cost effective development hubs, 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 our recent acquisitions. Management believes this model can be replicated over the next three years.

Growth through Establishing Partner Networks

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 Leasing and Finance Association of North America or ELFA. Boasting more than 1,000 members, the ELFA is a strong presence in the \$250 billion North American market.

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:

- OracleMicrosoft Gold Partner
- IBM Business Partner
- Sun Microsystems
- HP DSPP Partner
- Daimler Financial Services
- Innovation Group PLC UK
- GE
- Software Engineering Institute
- Kaspersky Lab
- SAP
- Business Objects
- IBM-Internet Security System

REAL

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

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Daimler Financial Services (“DFS”) 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 DFS companies in seven different countries in Asia and this list can increase as other DFS companies from other countries may also opt for LeaseSoft. In July, 2008, the Company entered into a new Frame Agreement with Daimler Financial Services AG (“DFS”) for Asia Pacific and Africa region. This agreement, which serves as a base line agreement for use of the LeaseSoft products by DFS companies and affiliated companies, represents an endorsement of the LeaseSoft product line and the capabilities of NetSol to worldwide DFS entities. This continued 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 DFS and has served as a marketing source which has resulted in agreements with companies such as Toyota and BMW.

NTE’s strategic relationship with Field Solutions provided the Company with the 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 such 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 and services offerings in 2008 and beyond. The Company is aggressively growing the marketing and sales organizations in the United Kingdom, in conjunction with NTE, in Pakistan with NetSol PK and, with NTNA in the Americas. Management believes that the year 2009 will follow 2008 and 2007 as a year for continued growth, the launching of footprints in new markets, such as the Middle East, South and Central America, 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, software solutions and business process outsourcing. 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 few years, the number of solutions and service offerings has grown manifolds. The depth and breadth of our products and services would be more effectively marketed by participation in more industry events, advertising, holding seminars, delivering keynote addresses and creating more channel distribution. Our key marketing initiatives have been designed to transition the brand equity built by the NTNA and NTE 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.

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 and is planning to establish an office in the United Arab Emirates as part of its Middle East strategy. NetSol took the initiative as the first US Nasdaq listed company to dual list on the DIFX in Dubai. This move was primarily to introduce NetSol to the potential of the very rich Middle Eastern countries. By design, NetSol has increased its brand recognition in one of the most vibrant and dynamically growing regions.

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 LeasePak and LeaseSoft in USA and Canada is carried out directly by the North American division.

NetSol has established a strategy to aggressively market LeaseSoft in various regions of the world. As part of the strategy, NetSol has forged alliances with reputable IT companies and has already appointed distributors in Singapore and Greece. 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.

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

	2008	2007
Asia Pacific Region (NetSol PK, NetSol-Innovation, Abraxas)	66.01%	61.04%
Europe (NTE, UK Ltd.)	20.95%	18.72%
North America (NetSol Technologies, Inc., NTNA)	10.83%	16.92%
Telecom Sector (NetSol Connect)	2.21%	3.32%
Total Revenues	100.00%	100.00%

Fiscal Year 2007-2008 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. ("NetSol PK")

Our off-shore development facility continues to perform strongly and has enhanced its capabilities and expanded its sales and marketing activities. 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 programming and development facility in Pakistan, being the engine which drives NetSol worldwide, continues to be the major source of revenue generation. The Pakistan operation contributed 54% of the 2008 revenues with \$19.6 million in revenues for the current year with a net profit of \$9.8 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 PK'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. Business offices in Bangkok, Thailand and Australia have been added in order to provide business and technical support for the Company's 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.

Its current client base includes Mercedes Benz Financial Services (Australia, Japan, New Zealand, Singapore, South Korea, Thailand, China and Taiwan), Yamaha Motors Finance Australia, Toyota Motors Finance China, Toyota Leasing Thailand, Finlease Commercial Bank of Mauritius, CNH Capital Australia, Fiat Automotive Finance China, Dongfeng Nissan Auto Finance China, BMW Financial Services in China and Al Amthal Leasing Saudi Arabia.

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. Services customers include:

Netsol Technologies Europe, Ltd. ("NTE")

In February 2005, NetSol acquired 100% of CQ Systems Ltd., (now NetSol Technologies Europe, Ltd. "NTE") 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 NTE's knowledge base and strong presence in the Asset Finance market to launch LeaseSoft in the UK and continental Europe.

NTE'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 the NTE product suite and most of the quality assurance, documentation and some of the CQ products core software development activities have been transitioned to Lahore. NTE 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.

NetSol Technologies Limited, the Company's original UK subsidiary, is responsible for the Company's activities in the Middle East region; plus ongoing marketing and sales of the LeaseSoft portfolio of leasing solutions and NetSol's range of on and off-shore IT services. The Company plans to integrate this entity with NTE and merge the Mid East business with the upcoming Dubai operation.

The combined NTE group contributed approximately \$7.7 million in revenues during the current fiscal year or 21% of the Company's revenues. The total net income was, approximately, \$1.8 million.

A few of NTE's recent accomplishments include:

- In collaboration with its strategic partner Real Consulting Information Systems S.A. of Athens, Greece ("Real Consulting S.A."), signed an agreement with a major European Bank to implement LeaseSoft within its growing financial leasing unit. The Bank is an international banking organization that offers its products and services both through its network of over 1,500 branches and points of sale and through alternative distribution channels.
 - Kaupthing Singer and Friedlander goes live in February 2008 with the full web based proposal management and credit underwriting solution, a complete replacement of the web front end with an NTE product

BNP Paribas LG NL goes live in May 2008 with LSA

Venture Finance goes live in December 2007

Execution of a reseller's agreement for LeaseSoft Asset with a strong software provider in Africa

NetSol Technologies North America ("NTNA")

NTNA 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. NTNA customers include such companies as Hyundai, JP Morgan/Chase, KeyCorp Leasing, City National Bank, Terex Corp., National City Capital Corp., ORIX, and Volkswagen Credit.

NTNA contributed approximately \$4.0 million in revenues during the current fiscal year or 11% of the Company's revenues. The total net loss was, approximately, \$910,000.

This division underwent restructuring and reorganization in June 2008. Due to change of senior management in 2008, the new business activity slowed down while the maintenance revenue continued.

NetSol-Innovation

In November 2004, the Company entered into a joint venture agreement with the Innovation Group (formerly referred to as TiG, ("TiG")) whereby the TiG-NetSol (Pvt) Ltd., now NetSol-Innovation (Pvt), Ltd., ("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. Today, Netsol has developed extensive expertise across the insurance domain and has become a center of excellence with a 130 person team

The joint venture, NetSol-Innovation, contributed approximately \$4.2 million in revenue during the current fiscal year or 11% of the Company's revenues. The total net profit was, approximately, \$2.1 million before adjusting for the 49.9% minority interest in earnings.

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 during the current fiscal year was \$811,000 or about 2% of revenues. The total net loss was \$8,800 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:

- 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 Daimler 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, Large Automotive Bluechip Company in China and BMW Financial Services in China.

Technology Campus

Due to the Company's global 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 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 former Prime Minister of Pakistan H.E. Shaukat Aziz on March 4, 2005. 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. During the current fiscal year, NetSol PK needed to expand its space due to its growth. It has made arrangements with the owner of the adjacent land 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. In addition, NetSol PK has begun work on building a new building behind the current one. The enhancement of infra-structure is necessary to meet the company's growth in local and international business. 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 . Management believes that its employees are the most invaluable asset of NetSol.

Overall, NetSol as a global IT company has over 20% 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 anywhere in the globe.

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, 2008, we had 959 full-time employees and 38 part-time employees; comprised of 775 IT project and technical personnel in Pakistan, UK, Australia, and US; and 222 non-IT personnel in Pakistan, UK, Australia and US. The non-IT personnel include 43 employees in management, 51 employees in sales and marketing, 28 employees in accounting, 18 in customer support, and 82 in general and administration. None of our employees are subject to a collective bargaining agreement. Our telecom subsidiary NetSol Connect has 78 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.

In the case of LeaseSoft, we compete chiefly against leading suppliers of IT solutions to the financial industry, including names such as Fimasys, International Decision Systems (IDS), Data Scan, CHP Consulting, 3i Infotech, Finnone and Nucleus Software. 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.

In the IT based business services areas, we compete with both smaller local firms and many global IT services providers, including names such as Wipro, InfoSys, Satyam Infoway, HCL and TCS (Tata Consulting).

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: Mercedes Benz Financial Services (Australia, Japan, New Zealand, Singapore, South Korea, Thailand, China and Taiwan), Yamaha Motors Finance Australia, Toyota Motors Finance China, Toyota Leasing Thailand, Finlease Commercial Bank Mauritius, CNH Capital Australia, Fiat Automotive Finance China, Dongfeng Nissan Auto Finance China, BMW Financial Services China and Al Amthal Leasing Saudi Arabia. Volkswagen Credit U.S. & Canada; Hyundai Motor Finance; Keycorp Leasing; Chase Equipment Finance; National City Commercial Credit; City National Bank; and, Terex Corporation In addition, NetSol provides offshore development and testing services to The Innovation Group Plc UK and their blue chip global insurance giants like Allstate, Cendent, etc. The JV with The Innovation Group contributes to about 12% of NetSol's revenues. NetSol is also a strategic business partner for Daimler (which consists of a group of many companies), which accounts for approximately 5% of our revenue. Toyota Motors (which consists of a group of many companies) accounts for approximately 3% of our revenues. Nissan Auto Finance (which consists of a group of many companies) accounts for approximately 11% of our revenues. However no single client represents more than 10% of the revenue for the fiscal year ended June 30, 2008.

As compared to the previous year, NetSol PK was able to materialize a number of services contracts within the local Pakistani public and defense sectors. In 2008 NetSol PK has continued to make strides in the land recording sector by winning two pilot projects in different cities of Pakistan. 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 the Ministry of Health and Establishment Division. Also, Netsol was able to secure a major defense sector hospital for its HMIS solution. Its 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, consultancy, applications development, and systems engineering and 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 maintains two corporate websites, www.NetSoltech.com and www.NetSolpk.com for its Global and Pakistani audience, respectively. The Company also maintains a product specific website for LeaseSoft: www.leasesoft.biz.

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, as part of providing ongoing support and maintenance services. More details can be found on <http://www.netsolhelp.com>.

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

Corporate Structure

The Company's headquarters are in Calabasas, California. Nearly 70% of the programming and development is carried out at NetSol's technology campus in Lahore, Pakistan. The other 30% of development is conducted in the Proximity Development Center or "PDC" in Horsham, UK and the U.S. development facility located in the San Francisco Bay Area of California. This signifies the newly launched 'BestShoring' model by providing the best services at the most efficient pricing model. The marketing effort is shared and coordinated between the primary divisions operating at

NetSol PK. in Lahore, Pakistan; NetSol UK, NTE in the UK; and NTNA in the U.S. US marketing operations are conducted through the parent and NTNA. 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 NTE, 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. NTNA, together with the parent, supports all of the North American customers.

NetSol has initiated the launch of Dubai based presence to promote and market its business in one of the most vibrant and dynamic regions. The rationale of approaching the Dubai-Mid East market is to leverage NetSol's global footprint and brand recognition. There is apparent appetite and loyalty of Middle East businesses with Pakistan based IT resources and NetSol expects to see strong traction in coming years.

Despite numerous challenges facing Pakistan in 2008 due to political unrest and economic pressure, according to reports 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 has seen noticeable demand from APAC and UAE region to use NetSol PK development infrastructure that offers competitive price and technology advantage to serve its customers.

A few of NetSol's major successes achieved in 2008 were:

- * Adding 5 new clients in China in the last 18 months, continuing its status as the Company's 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 Innovation Group, over 130 programmers dedicated
- * Continued addition of blue chip customers such as Terex Corp, Fiat, Toyota Financial, blue chip names in the US and Investec

From the point of view of the interests of our foreign partners and customers in NetSol, Pakistan remains a safe place to do business. The specific successes achieved from the acquisitions of CQ Systems (NTE) and McCue Systems (NTNA) endorses the fact that Pakistan is a safe place to do business when compared to many other troubled spots in the globe. Our best and proven business case is the NetSol - Innovation Group joint venture. This 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 Innovation Group in the UK with world class service from NetSol Pakistan, enhancing the client's productivity at much more attractive prices. Under any geo-political challenges, the Company is quite prepared in any contingency to use alternate development facilities located in Beijing (China), Horsham (UK), Emeryville (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, the Middle East, 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 has effectively achieved a seamless transition and integration of NTE and NTNA 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, 2008, the Company has invested approximately \$1,044,389 on this project.

ITEM 2 - PROPERTIES*Company Facilities*

The Company's corporate 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 two-year lease expiring in December 2009.

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

Location/Approximate Square Feet		Purpose/Use	Monthly Rental Expense
Australia.	1,140	Computer and General Office	\$ 1,380
Beijing, China	431	General Office	\$ 4,315
Burlingame, CA (NetSol McCue)	8,089	Computer and General Office	\$ 16,178
Emeryville, CA (NTNA)	23,908	Computer and General Office	\$ 77,880
Horsham, UK (NetSol Europe)	6,570	Computer and General Office	\$ 12,528
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)	6,200	General Office	\$ 850
Thailand	936	Computer and General Office	\$ 752

The Australia lease is a month to month lease and 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 \$752. The NetSol Europe facilities, located in Horsham, United Kingdom, are leased until June 23, 2011 for an annual rent of £75,000 (approximately \$150,330). NTNA recently relocated to the Emeryville, California location. The Emeryville lease is a ten year lease with monthly rent of \$77,880. NTNA's former Burlingame, California, premises are leased until June 30, 2009 with a monthly rent of \$16,178. NTNA is actively seeking to sublet the Burlingame, California premises.

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 1 year lease that expires in January 2009 and currently is rented at the rate of \$850 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 nearly 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 May 2, 2008. 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	For	Withhold	Percent of Total Voted	Total Shares Voted
Najeeb Ghauri	22,530,798	381,810	98.33	22,912,608
Naeem Ghauri	22,527,198	385,410	98.31	22,912,608
Salim Ghauri	22,496,507	416,101	98.18	22,912,608
Shahid Burki	22,338,231	574,377	97.49	22,912,608
Eugen Beckert	22,339,231	574,224	97.49	22,912,608
Mark Caton	21,919,409	993,199	95.66	22,912,608
Alexander Shakow	22,613,565	299,043	98.69	22,912,608

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
22,912,608	21,934,373	813,922	164,311	95.73%

3. Amendment of Articles of Incorporation to Increase Capital Stock

An amendment of the articles of incorporation to increase the total capital stock to 100,000,000 was approved of which 95,000,000 shall consist of common stock, \$.001 par value and 5,000,000 shall consist of preferred stock, \$.001 par value. The following sets forth the tabulation of the shares voting for this matter.

Total Shares Voted	For	Against	Abstain	Broker Non-Vote	Percent
22,912,608	12,282,394	1,464,299	62,630	9,103,285	53.60%

4. Adoption of the 2008 Equity Incentive Plan

The 2008 Equity Incentive Plan which permits the grant, pursuant to the plan, of up to 1,000,000 shares of common stock of the Company was approved. The following sets forth the tabulation of the shares voting for this matter.

Total Shares Voted	For	Against	Abstain	Broker Non-Vote	Percent
22,912,608	12,075,501	1,518,416	214,460	9,103,285	52.70%

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	2007-2008		2006-2007	
	High	Low	High	Low
1st (ended September 30)	3.19	1.41	2.00	1.27
2nd (ended December 31)	4.64	2.18	2.05	1.40
3rd (ended March 31)	2.75	1.45	2.05	1.40
4th (ended June 30)	3.06	1.90	2.05	1.40

Common stock of NetSol Technologies, Inc. is also listed and traded on the Dubai International Financial Exchange ("DIFX") under the ticker symbol "NTWK" beginning on June 16, 2008.

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

Fiscal Quarter	2007-2008		2006-2007	
	High	Low	High	Low
1st (ended September 30)	—	—	—	—
2nd (ended December 31)	—	—	—	—
3rd (ended March 31)	—	—	—	—
4th (ended June 30)	2.94	2.67	—	—

RECORD HOLDERS - As of September 15, 2008, the number of holders of record of the Company's common stock was 247. As of September 15, 2008, there were 26,419,770 shares of common stock issued and outstanding and 1,920 shares of preferred 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, 2008:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans approved by Security holders	8,064,739(1)	\$ 2.48(2)	4,162,148(3)
Equity Compensation Plans not approved by Security holders	None	None	None
Total	8,064,739	\$ 2.48	4,162,148

(1) Consists of 16,000 under the 2001 Incentive and Nonstatutory Stock Option Plan; 882,000 under the 2002 Incentive and Nonstatutory Stock Option Plan; 479,000 under the 2003 Incentive and Nonstatutory Stock Option Plan; 3,075,425 under the 2004 Incentive and Nonstatutory Stock Option Plan; and 1,620,000 under the 2005 Incentive and Nonstatutory Stock Option Plan.

(2) The weighted average of the options is \$2.59.

(3) Represents 840,394 available for issuance under the 2003 Incentive and Nonstatutory Stock Option Plan; 51,754 available for issuance under the 2004 Incentive and Nonstatutory Stock Option Plan; and, 3,270,000 available for issuance under the 2005 Incentive and Nonstatutory Stock Option Plan.

(b) RECENT SALES OF UNREGISTERED SECURITIES

In April 2008, the Company issued 20,000 rule 144 restricted shares to an accredited consultant in exchange for services rendered. These shares were issued in reliance on an exemption from registration available under Regulation D of the Securities Act of 1933, as amended.

In June 2008, the Company issued 8,750 rule 144 restricted shares to an employee in exchange for services rendered. These shares were issued in reliance on an exemption from registration available under Sections 4(2) of the Securities Act of 1933, as amended.

In June 2008, the Company issued a total of 20,000 shares of common stock to an accredited, non-US based consultant in exchange for services rendered. These shares were not transferred to the consultant as of June 30, 2008 and are therefore, not included in the shares outstanding. These shares were issued in reliance on an exemption from registration available under Regulation D of the Securities Act of 1933, as amended.

During the quarter ended June 30, 2008, holders of our Series A 7% Cumulative Convertible Preferred Stock received 18,764 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 fiscal years ended June 30, 2008 and 2007, employees exercised options to acquire 849,938 and 1,574,273 shares of common stock in exchange for a total exercise price of \$1,518,429 and \$2,590,473.

(c) STOCK REPURCHASE PLAN

The repurchases provided in the table below were made during the quarter ended June 30, 2008:

Issuer Purchases of Equity Securities(1)

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may be Purchased Under the Plans or Programs
January 2008	-0-	\$ 0.00	-0-	-0-
February 2008	-0-	\$ 0.00	-0-	-0-
March 2008	13,600	\$ 1.87	13,600	986,400
June 2008	-0-	\$ 0.00	-0-	-0-

(1)

(1) On March 24, 2008, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 1,000,000 of its shares of common stock over the next 6 months. The shares are to be

repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion.

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, 2008.

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.

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

- Expand sales and marketing activities in China. In addition to the Beijing office, we anticipate launching new sales and support offices in at least 1-2 more cities in China.
- Grow NetSol in the newest region in the UAE and Gulf states. Initially, a small virtual office is being set up in Dubai area that could roll into a bigger and stand alone presence in the area.
- Globalization and diversification of development and programming capabilities, not limited to Southeast Asia but exploration of emerging economies in Central and South America to support the NTNA business.
- Most strategic goal in 2009 is to establish the NTNA business by expanding the existing operations. The move from a smaller office in Burlingame to a much larger office in Emeryville will be a major event in NetSol history. This strategy has strong potential of ramping up global business and valuation for Netsol consistent with our stated vision.
 - Actively explore both opportunistic and synergistic alliances and partnerships in Americas and Europe.
- Improve the quality of hiring of senior management personnel in key locations. Further build a stronger middle management resource pool to deliver and execute the growth and earnings envisioned by the management.
 - Introduce and market two LeaseSoft modules: WSF and CAPS in the US market.
- Grow into new business verticals including healthcare, insurance, and banking in the US and European markets. The launch of Global Business Services through these verticals is an important goal in 2009.
 - 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 both new developments and domains within NetSol's core competencies.
- NetSol technology campus to become much more cost efficient, enhanced productivity and services to global clients and partners.

- 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 Enterprise solution in the European markets.
- Broaden value added investor base in the UAE region and US institutions. Also attract technology focused analysts coverage to improve NetSol valuation and multiples.

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

- Prompt organic expansion in North America market by expanding the sales and marketing team.
- Diversify in new verticals of services in North America such as insurance, healthcare, public sectors.
- Continue sales momentum and pipeline of LeaseSoft in APAC, Europe and now in the Americas.
 - Further extending services offerings to existing 30 plus US customers.
 - Penetrate further into the Chinese market by adding new locations.
 - Effectively enter the UAE and regional markets for LeaseSoft and services.
 - Further penetrate in Australian market in captive and non-captive sectors.
- Fully leverage NetSol's reputable name in the UK and European markets within banking, leasing and insurance sectors.
 - Encourage joint ventures and new alliances.

Funding and Investor Relations:

- Add breadth and depth to the investor base in the US and UK by aggressively presenting in various investors forums and analysts meetings.
- Grow further institutional ownership from 20% to 40% by continuously presenting the Company with a focus on the US /China / UAE business expansion.
 - IR/PR to expand media reach in 2009. NetSol has been interviewed by Fox Business Network, Nasdaq site and many print publications in 2008.
 - NetSol management was invited on June 24, 2008 to closing bell at NASDAQ Stock Exchange.
- Expand the investor ownership in the UAE market to generate increased trading volumes on the NASDAQ Capital Market and the DIFX exchanges.
- Continue to encourage stock options exercises by officers and employees. Improve internal cash flows through enhanced process of A/Rs collections and explore most strategic investors with value add perspectives.
 - Make every effort to enhance NetSol's market capitalization in the US.

Improving the Bottom Line:

- Grow topline, enhance gross profit margins to 62-65% by leveraging the low-cost development facility in Lahore and Best Shoring model.
- 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.
 - 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 both operating and net margins.

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.

In a quest to continuously improve its quality standards, NetSol is frequently assessed to maintain its CMMi Level 5 quality certification. We believe that the CMMi standards achievement is a key reason in NetSol's demand surge worldwide. We remain convinced that this trend will continue for all NetSol offerings promoting further beneficial alliances and increasing the number and quality of our global customers. The quest for quality standards is a key to NetSol overall sustainability and success. In 2008 NetSol PK became ISO 27001 certified, 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:

- Robust worldwide shift towards cost redundancies, economies of scale and labor arbitrage.
- The global economic pressures has shifted IT processes and technology to utilize both offshore and onshore solutions providers, to control the costs and improve ROIs.
- New trends in the most emerging and newest markets. There has been a noticeable new demand of leasing and financing solutions as a result of new buying habits and patterns in the Middle East, Eastern Europe and Central America.
- The overall leasing and finance industry in North America has steadily grown to over \$260 billion despite the subprime crises, partly due to the resulting lack of cash liquidity.
- 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.

Negative trends:

- The disturbance in Middle East, Afghanistan and Pakistan borders. Due to 9/11 events and global war on terrorism, the travel advisory of Americans travel restrictions to Pakistan continue. In addition, travel restrictions to the US and more stringent immigration laws are causing delays in travel to the US.
 - Negative perception and image created by extremism and terrorism in the South Asian region.
 - Overall slump in world markets, curtailing IT and spending budgets.
- Unstable economic and political environment in Pakistan and the current volatility of Pakistan's capital markets.
- Worry of an expanding and unending credit crunch in the world economies due to financial and banking sector failures.
 - Overall decline of auto sales due to higher oil prices and inflationary pressure.

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, 2008 and 2007, 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, 2008 with \$6.2 million in cash worldwide. In addition, \$3.3 million was injected by the exercise of options and warrants in 2008 and \$1.5 million was injected from a sale of restricted common stock in a private placement.

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

Board of Directors

At the 2008 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, 2008 COMPARED TO THE YEAR ENDED JUNE 30, 2007

Net revenues for the year ended June 30, 2008 were \$36,642,175 as compared to \$29,282,086 for the year ended June 30, 2007. Net revenues are broken out among the subsidiaries as follows: