NETSOL TECHNOLOGIES INC
Form 10KSB
September 20, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

or

o 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	**95-4627685**
(State or other jurisdiction of incorporation or organization)	(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. o

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 x No o

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 o No x

Registrant's revenues for the fiscal year ended June 30, 2007 were $29,282,086.

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

As of September 13, 2007, Registrant had 21,374,922 shares of its $.001 par value Common Stock issued and outstanding and 4,130 shares of its Preferred Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(None)

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

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PART I

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

ITEM 1 - BUSINESS

GENERAL

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

COMPANY BUSINESS MODEL

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

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

Company's software development takes place in the Lahore technology campus with the remaining 20% in the US and UK.

Achieving Software Maturity and Quality Assurance.

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

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

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

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

The North American Region is headed by John McCue, as President of NetSol McCue, based in Burlingame, California. NetSol McCue has 35 years of experience in developing business solutions for the equipment and vehicle leasing industry as a provider of lease/loan portfolio management software for banks, leasing companies and manufacturers. Its flagship product, LeasePak, simplifies lease/loan administration and asset management by accurately tracking leases, loans and equipment from origination through end-of-term and disposition. The LeasePak brand is recognized in the US and Canadian marketplace and is configured to handle the unique tax and regulation requirements of North America. LeasePak is complementary to NetSol's LeaseSoft offering and its geographic specificity complements LeaseSoft in regions in which LeaseSoft does not currently have coverage or domain support knowledge. In order to best leverage the cost arbitrage and enhance gross margins, NetSol US operations (after the McCue acquisition) has already begun training 15 developers and programmers in the Lahore development facility to reduce dependency in the high-cost base in Silicon Valley. The integration of both back end and front end of McCue with NetSol is on track. The Company will continue to use NetSol McCue as a platform for introduction of LeaseSoft to the U.S. market.

NetSol McCue provides the leasing technology industry in the development of Web-enabled and Web-based tools to deliver superior customer service, reduce operating costs, streamline the lease management lifecycle, and support collaboration with origination channel and asset partners. LeasePak can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. And for scalability, NetSol McCue offers the LeasePak Bronze, Silver and Gold Editions for systems and portfolios of virtually all sizes and complexities. These solutions provide the equipment and vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors, including such companies as Cisco, Hyundai, JP Morgan/Chase, KeyCorp Leasing, City National Bank, Bank of Tokyo Mitsubishi, La Salle National Bank, Terex Corp., National City Capital Corp., ORIX, and Volkswagen Credit.

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

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

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

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

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

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

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

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

NETSOL APAC OPERATIONS

Our off-shore development center, and indeed the center of the Company's services and software operations, the APAC region is headed by former President of NetSol and current Chief Executive Officer of NetSol PK (the Company's Pakistan subsidiary), Salim Ghauri. The Asian continent, Australia and New Zealand, from the perspective of LeaseSoft marketing, are targeted by NetSol Technologies from its Lahore subsidiary, its offices in Australia, Thailand and Beijing, China. NetSol PK has continued to grow its service contracts within the local Pakistani public and defense sectors. An important aspect of these contracts is that not all of them focused solely on software development and engineering.

This year, APAC has gone a step further by providing both consultancy services to organizations so as to improve their quality of operations and services and, winning strategically important assignments with the E-Governance domains for organizations of national significance in Pakistan. These clients include private as well as public sector enterprises. In response, APAC has created a new division known as NDD - NetSol Defense Division in Islamabad. There is a sizable budget allocated by the government of Pakistan to automate and use new technologies and systems. NetSol is in a sound position to win some of these high ticketed projects.

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

IT Consulting & Services

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

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

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

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

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

NetSol's service capability has expanded to Basel II compliance. The Basel II Accord is a mandate by the Bank for International Settlements (BIS) requiring banks around the world to introduce processes and systems in their organization that will more effectively control and manage their enterprise wide risk. Basel II has introduced "risk differentiation" by allowing banks to hold capital reserves directly proportional to the amount of credit risk they are taking. Further, the accord has introduced a capital charge for operational risk. SunGard is the world's number one software company for the financial industry with a comprehensive range of solutions. NetSol formed a strategic alliance with SunGard in April 2006, and launched its Basil II solutions with a jointly sponsored seminar in Karachi. The strong Basel II implementation know-how of NetSol's BI consulting group combined with the world's foremost software in the risk and financial industry makes NetSol, in management's opinion, the world's strongest and most proficient Basel II service in Pakistan.

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

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

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

LeaseSoft

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

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

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

The constituent software applications are:

· Credit Application Processing System (CAP). LeaseSoft.CAP provides companies in the financial sector an environment to handle the incoming credit applications from dealers, agents, brokers and the direct sales force. LeaseSoft.CAP automatically gathers information from different interfaces like credit rating agencies, evaluation guides, and contract management systems and scores the applications against defined scorecards. This mechanized workflow permits the credit team members to make their decisions more quickly and accurately. Implementation of LeaseSoft.CAP dramatically reduces application-processing time in turn resulting in greater revenue through higher number of applications finalized in a given time. LeaseSoft.CAP reduces the probability of a wrong decision thus, again, providing a concrete business value through minimizing the bad debt portfolio. LeaseSoft.CAP is a database independent online system developed in Microsoft's .Net framework. Toyota Leasing Thailand and BMW Financial Services China are the first two clients of LeaseSoft.CAP. The benefit of LeaseSoft.CAP being an online system is that it can be run from any PC with normal specifications as long as there is an internet connection.

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· Contract Management System (CMS). LeaseSoft.CMS provides comprehensive business functionality that enables its users to effectively and smoothly manage and maintain a contract with the most comprehensive details throughout its life cycle. It provides interfaces with company banks and accounting systems. LeaseSoft.CMS effectively maintains details of all business partners that do business with the company including, but not limited to, customers, dealers, debtors, guarantors, insurance companies and banks. Developed with the input of a number of leasing consultants, this product represents a complete lease and finance product. NetSol's LeaseSoft.CMS provides business functionality for all areas that are required to run an effective, efficient and customer oriented lease and finance business.

· Wholesale Finance System (WFS). LeaseSoft.WFS automates and manages the floor plan/bailment activities of dealerships through a finance company. The design of the system is based on the concept of one asset/one loan to facilitate asset tracking and costing. The system covers credit limit, payment of loan, billing and settlement, stock auditing, online dealer and auditor access, and ultimately the pay-off functions.

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

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

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

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

NETSOL NORTH AMERICA OPERATION - NetSol McCue, Inc.

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

NetSol McCue provides the leasing technology industry in the development of Web-enabled and Web-based tools to deliver superior customer service, reduce operating costs, streamline the lease management lifecycle, and support collaboration with origination channel and asset partners. LeasePak can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. And for scalability, NetSol McCue offers the LeasePak Bronze, Silver and Gold Editions for systems and portfolios of virtually all sizes and complexities. These solutions provide the equipment and vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry’s leading independent lessors. NetSol customers include such companies as Cisco, Hyundai, JP Morgan/Chase, KeyCorp Leasing, City National Bank, Bank of Tokyo Mitsubishi, La Salle National Bank, Terex Corp., National City Capital Corp., ORIX, and Volkswagen Credit.

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

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

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

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

NetSol-CQ's integration has included the continued leverage of the Company's high quality but lower cost resources in its offshore development center in Lahore, Pakistan. This phase of the transition plan has been completed whereby a dedicated team of software engineers and testers have been trained on CQ product suite and most of the quality assurance, documentation and some of the CQ products core software development activities have been transitioned to Lahore. NetSol-CQ has been able to implement significant productivity and cost improvements which have included realizing the higher level of cost efficiencies of using the Lahore offshore facility for software development and quality assurance.

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

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

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

The Asian continent, Australia and New Zealand, from the perspective of LeaseSoft marketing, are targeted by NetSol Technologies from its Lahore subsidiary, its offices in Beijing, and it's newly opened business and technical support office in Bangkok, Thailand. NetSol UK through its base in Horsham, United Kingdom, focuses on the European market. The marketing for LeaseSoft in USA and Canada is carried out directly by the Company.

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

NetSol office in Beijing, China

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

NetSol 's new office in Bangkok, Thailand

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

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

- 11 new implementation contracts signed during the year.

- Of these, 7 new contracts signed during the fourth quarter.

- New names in the customer list, including Fiat Automotive Finance, CNH Capital, and a large automotive blue chip company in China.

- The addition of the Fleet Management System to the LeaseSoft Suite.

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

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

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

Status of New Products and Services

InBanking™

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

PTS was originally developed on two tier client server technologies and was designed to provide full process automation and decision support in the front, middle and back offices of treasury and capital markets operations. On an internal review of PTS post acquisition, it was decided to re-write the system within .NET technologies, bringing the system into the leading edge n-tier/browser-based environment. The project name for this program is InBanking™.

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

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

LeaseSoft Portals and Modules in 2007

Our EMEA division developed new products and modules including:

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

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

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

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

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

LeasePak Productivity Suite

In 2005, McCue Systems developed the LeasePak Productivity Suite as an additional companion set of products to operate in conjunction with the LeasePak licensed software. This toolset enables the LeasePak user to leverage the power of the system to streamline originations, integrate the dealer/vendor network, automate documentation, enhance customer service, manage risk, and control infrastructure overhead. In 2007, LeasePak 6.0a was released for general availability and has gone into production for use at 2 major clients.

The components of the LeasePak Productivity Suite are:

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

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

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

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

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

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

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

- Business Development Module: Streamlines the exchange of aggregated finance contract portfolios between LeasePak users.

- Commercial Lending Module: Adds core functionality for the management of commercial loans.

- Asset Focus Module: Provides new options for users to enhance asset accounting and reporting options.

NetSol Technology Institute

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

Outsourcing Services-Extended Innovation (EI)

In November 2004, the Company entered into a joint venture agreement with The Innovation Group ("TiG") whereby the TIG-NetSol (Pvt) Ltd., now Extended Innovation (EI) a Pakistani company, provides support services enabling TiG to scale solution delivery operations in key growth markets. TiG-NetSol operations are centered in NetSol's IT Village, Lahore, Pakistan. NetSol owns a majority of the venture. The entities share in the profits of the joint venture on the basis of their shareholding. The outsourcing model between TiG and NetSol involves services pertaining to business analyses, configuration, testing, software quality assurance (SQA), technical communication as well as project management for TiG software. Initiated with a 10 person outsourcing team in Lahore in February 2005, this arrangement has extended to a 120 person team in June 2007 with the additional resources catering to the increased influx of outsourcing of configuration and testing assignments from TiG.

Prominent TiG customers being serviced from EI include Allstate Insurance Canada, Avis Budget Car Rental Group USA, Norwich Union UK, Hertz UK, Aviva Canada, Erinaceous UK amongst others. Backed up by a dedicated 4Mbps fiber optic link and an additional 2Mbps wireless backup link for communication and teleconferencing, this arrangement will allow NetSol's human resources to efficiently and effectively respond to additional outsourcing and offshore configuration work.

Growth Through Acquisition and Alliance

On June 30, 2006, NetSol completed its acquisition of McCue Systems, Inc., a California corporation (now NetSol McCue, Inc.). NetSol McCue has over 30 years of experience in developing business solutions for the equipment and vehicle leasing industry as a provider of lease/loan portfolio management software for banks, leasing companies and manufacturers. Its flagship product, LeasePak, simplifies lease/loan administration and asset management by accurately tracking leases, loans and equipment from origination through end-of-term and disposition. With common customers and common goals, we believe the acquisition of NetSol McCue provides a complimentary North American presence to our global offering of software and services to the lease and finance industry. NetSol McCue is expected to contribute about 25% of U.S. based revenue to the NetSol group revenue in 2008. Netsol now has a solid US operation based in Burlingame, California with over 40 key and established customers in North .America and a very seasoned team of 40 personnel led by the founder John McCue as the President of North American Operations.

Our recent acquisitions mark the implementation of our mergers and acquisition plan developed in mid-2004. In this plan, NetSol management identified mergers and acquisitions as potential methods of capitalizing on the demand of the Company's flagship product, LeaseSoft, on infiltrating previously untapped or under-tapped markets, and as a means of launching its treasury banking software systems. The completion of these acquisitions now provides NetSol with positioning as the only software supplier in the leasing space with a global footprint of installed customers in each geographic region throughout the world. This, together with the visible turnaround in the services and outsourcing sectors in global markets, led to a growth strategy encompassing both organic growth and mergers and acquisitions. While the calendar year 2004, focused on capitalizing on organic growth and investing in building up the Company's marketing and sales organization, the early part of 2005 saw a renewed focus on mergers and acquisitions.

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

Growth through Establishing Partners Network

NetSol is well aware that market reach is essential to effectively market IT products and services around the globe. For this purpose, the Company is looking forward to establishing a network of partners worldwide. These companies will represent NetSol in their respective countries and will develop business for NetSol. Keeping these strategic objectives in view, NetSol has entered into a mutually non-exclusive agreement with Singapore Computer Systems (SCS) that allows SCS to market LeaseSoft in the entire Asia Pacific region.

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

Strategic Alliances

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

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

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

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

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

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

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

Technical Affiliations

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

Marketing and Selling

The Marketing Program

NetSol management continues its optimism that the Company will experience ever increasing opportunities for its product offerings in 2008 and beyond. The Company is aggressively growing the marketing and sales organizations in the United Kingdom, in conjunction with NetSol-CQ, in Pakistan and, with NetSol McCue, in the USA. Management believes that the year 2008 will follow 2006 and 2007 as a year for continued growth, the launching of footprints in new markets, and penetration of established markets such as North America, Asia Pacific and Europe.

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

A number of new marketing initiatives have either been launched or are in the pipeline. These programs are designed to create brand awareness and to deliver our message directly to our target group. As the company has evolved in the past three years, the number of product and service offerings has grown 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 NetSol McCue and NetSol-CQ brands to the Company as a whole.

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

The Markets

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

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

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

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

Fiscal Year 2006-2007 Performance Overview

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

NetSol Technologies Ltd. (“PK Tech”)

Our off-shore development facility continues to perform strongly and has enhanced its capabilities and expanded its sales and marketing activities. In May 2004, NetSol inaugurated its newly built Technology Campus in Lahore, Pakistan. The state-of-the-art, NetSol building currently houses over 600 employees and has become the engine of NetSol’s business model providing world class IT talent and a cost arbitrage that is attractive to western customers. This state of the art technology campus has become the envy of the industry as being the only and first CMMi level 5 company in Pakistan.

The Lahore operation supports the worldwide customer base of the LeaseSoft suite of products and all other product offerings. NetSol has continued to lend support to the Lahore subsidiary to further develop its quality initiatives and infrastructure. The development facility in Pakistan, being the engine which drives NetSol worldwide, continues to be the major source of revenue generation. The Pakistan operation contributed 51% of the 2007 revenues with $14.8 million in revenues for the current year with a net profit of $4.7 million before adjusting the minority interest. This was accomplished primarily through export of IT services and product licensed to both the domestic and overseas markets.

While available to support its product and services base on a world-wide basis, NetSol Technologies Ltd.’s selling and marketing efforts are focused on Asia Pacific, China and Middle East. In China, the company has established a business office in the capital city of Beijing from which it expects to have more business in the future. A new business office in Bangkok, Thailand, was added in order to provide business and technical support for the Company’s Thai based customers.

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

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

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

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

EMEA

NetSol Technologies Limited, the Company's UK subsidiary, was formed in fiscal 2003. Located in the heart of London, one of the world's major banking and finance centers, the subsidiary is responsible for the Company's activities in the UK, Europe and Middle East, and ongoing marketing and sales of the LeaseSoft portfolio of leasing solutions, and NetSol's range of on and off-shore IT services.

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

NetSol-CQ's integration has included the continued leverage of the Company's high quality but lower cost resources in its offshore development center in Lahore, Pakistan. This phase of the transition plan has been completed whereby a dedicated team of software engineers and testers have been trained on CQ product suite and most of the quality assurance, documentation and some of the CQ products core software development activities have been transitioned to Lahore. NetSol-CQ has been able to implement significant productivity and cost improvements which have included realizing the higher level of cost efficiencies of using the Lahore offshore facility for software development and quality assurance.

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

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

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

The combined EMEA group contributed approximately $5.5 million in revenues during the current fiscal year or 19% of the Company's revenues. The total net loss was, approximately, $832,000.

A few of EMEA's recently signed agreements include:

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

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

North America - NetSol McCue

NetSol McCue (formerly McCue Systems) provides the leasing technology industry in the development of Web-enabled and Web-based tools to deliver superior customer service, reduce operating costs, streamline the lease management lifecycle, and support collaboration with origination channel and asset partners. LeasePak can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. And for scalability, NetSol McCue offers the LeasePak Bronze, Silver and Gold Editions for systems and portfolios of virtually all sizes and complexities. These solutions provide the equipment and vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors. NetSol customers include such companies as Cisco, Hyundai, JP Morgan/Chase, KeyCorp Leasing, City National Bank, Bank of Tokyo Mitsubishi, La Salle National Bank, Terex Corp., National City Capital Corp., ORIX, and Volkswagen Credit.

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

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

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

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

In November 2004, the Company entered into a joint venture agreement with The Innovation Group ("TiG") whereby the TIG-NetSol (Pvt) Ltd., now Extended Innovation a Pakistani company, provides support services enabling TiG to scale solution delivery operations in key growth markets. TiG-NetSol operations are centered in NetSol's IT Village, Lahore, Pakistan. NetSol owns 50.52 percent of the new venture, with TiG owning the remaining 49.48 percent. The entities share in the profits of the joint venture on the basis of their shareholding. The outsourcing model between TiG and NetSol involves services pertaining to business analyses, configuration, testing, software quality assurance (SQA), technical communication as well as project management for TiG software. Initiated with a 10 person outsourcing team in Lahore in February 2005, this arrangement has extended to a 120 person team in June 2007 with the additional resources catering to the increased influx of outsourcing of configuration and testing assignments from TiG.

Prominent TiG customers being serviced from EI include Allstate Insurance Canada, Avis Budget Car Rental Group USA, Norwich Union UK, Hertz UK, Aviva Canada, Erinaceous UK and many others. Backed up by a dedicated 4Mbps fiber optic link and an additional 2Mbps wireless backup link for communication and teleconferencing, this arrangement will allow NetSol's human resources to efficiently and effectively respond to additional outsourcing and offshore configuration work.

NetSol Connect (Pvt) Limited

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

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

LeaseSoft Sales

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

- 11 new implementation contracts signed during the year.
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- 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.

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Technology Campus

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

The original Technology Campus was completed in May 2004 and the Lahore operations relocated to the facilities in May 2004. The facility was formally inaugurated by the Prime Minister of Pakistan H.E. Shaukat Aziz on March 4, 2005. By relocating the entire Lahore operation from its previously leased premises to the Campus, the Company saves approximately $150,000 annually. The campus has been declared a Software Technology Park by the Government of Pakistan. The Government has also financed the linking of the campus with the high speed fiber optic backbone capable of providing 155 MB internet bandwidth. The Internet bandwidth is effectively utilized to offer state of the art video conferencing and VOIP (Voice over IP) facilities for effective and seamless communication with our global customer base. Encompassing a covered area of more than 55,000 square feet and housing over 600 professionals, this is one of the largest such facilities for IT services in the region. In addition to being the headquarters for NetSol's subsidiaries in Pakistan, it also serves the NetSol group's global services and products development facility. The CMMi Level 5 rated facility ensures quality engineering practices to its clients across the globe. The campus site is located in Pakistan's second largest city, Lahore, with a population of six million. An educational and cultural center, the city is home to most of the leading technology oriented academia of Pakistan including names like LUMS, NU-FAST & UET. These institutions are also the source of quality IT resources for the Company. Lahore is a modern city with very good communication and solid infrastructure and road network. The Technology campus is located at about a 5-minute drive from the newly constructed advanced and high-tech Lahore International Airport. This campus is the first purpose built software building with state of the art technology and communications infrastructure in Pakistan. The investment made by the company in developing this technology campus is proving to be highly effective in attracting new business not only from global blue chip customers but also from the fast developing Pakistan market.

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People and Culture

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

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

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

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

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

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

As of June 30, 2007, we had 766 full-time employees; comprised of 553 IT project and technical personnel in Pakistan, UK, Australia, and US; and 213 non-IT personnel in Pakistan, UK, Australia and US. The non-IT personnel include 59 employees in management, 49 employees in sales and marketing, 28 employees in accounting, 18 in customer support, and 59 in general and administration. There are a total of 59 part-time employees. None of our employees are subject to a collective bargaining agreement. Our telecom subsidiary NetSol Connect has 113 full time employees based in Karachi, Pakistan, which are included in the total full-time employee count.

Competition

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

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

Our competitors have not been as active in mergers and acquisitions as NetSol. This is mostly due to lack of funding for such acquisitions as most of the companies are privately held. Start ups have to gain traction over several years to make their products more robust and scalable and therefore find it difficult to compete on price and functionality. Additionally, our competition mostly are based in high cost locations in the US, UK and Europe as opposed to NetSol with its facility in Lahore. NetSol is now the only company in the leasing and finance solution space that provides regional solutions in North America, Europe and Asia Pacific. In addition, it is the only company in this space that is publicly listed and provides an offshore development infrastructure with CMMi level 5 accreditation.

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

Customers

Some of the customers of NetSol include: DaimlerChrysler Financial Services (Australia, Japan, New Zealand, Singapore, South Korea, Thailand, China and Taiwan), Mercedes-Benz Finance Japan, Yamaha Motors Finance Australia, Toyota Motors Finance China, Toyota Leasing Thailand, Mauritius Commercial Bank, Finlease Company Limited, CNH Capital Australia, Fiat Automotive Finance China, a large automotive bluechip company in China and BMW Financial Services in China. In addition, NetSol provides offshore development and testing services to The Innovation Group Plc UK and their blue chip global insurance giants like Allstate, Cendent, etc. NetSol is also a strategic business partner for DaimlerChrysler (which consists of a group of many companies), which accounts for approximately 2% of our revenue. Toyota Motors (which consists of a group of many companies) accounts for approximately 9% of our revenues. No single client represents more than 10% of the revenue for the fiscal year ended June 30, 2007.

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

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

Web Presence

The Company is committed to regaining and extending the advantages of its direct model approach by moving even greater volumes of product sales, service and support to the Internet. The Internet provides greater convenience and efficiency to customers and, in turn, to the Company. The Company receives 150,000 hits per month to www.NetSoltek.com. The Company also maintains a product specific website for LeaseSoft at www.leasesoft.biz and regional websites for NetSol Pakistan at www.netsolpk.com; NetSol-CQ at www.netsolcq.com; and, NetSol McCue at www.netsol-mccue.com.

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

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Operations

The Company's headquarters are in Calabasas, California. Nearly 80% of the production and development is carried out at NetSol's technology campus in Lahore, Pakistan. The other 20% of development is conducted in the Proximity Development Center or "PDC" in Horsham, UK and the U.S. development facility located in the Silicon Valley area of California. The marketing effort is shared and coordinated between the primary divisions operating at NetSol Technologies Ltd. in Lahore, Pakistan; NetSol UK, NetSol-CQ in the UK; and NetSol McCue in the U.S. US marketing operations are conducted through the parent and NetSol McCue. These are the core operating companies engaged in developing and marketing IT solutions and software development and marketing. An initiative is underway to unify the look and feel of all advertising, branding and marketing material.

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

Approximately 80% of programming and development occurs at NetSol's world class and state of the art technology campus in Lahore, Pakistan. This facility which is the engine and nerve center for NetSol was awarded the highest gold standard of CMMi level 5 in 2006. Despite global unrest due to the Iraq war and international terrorism, as well as economic pressure due to skyrocketing oil prices, the economy of Pakistan has made a positive turn around. The economy of Pakistan has grown to over 8.6% in 2006 and over 8% in 2007 and it is expected to sustain the same trend for years to come. According to government figures, over the past four years, economic growth has averaged 7%; making Pakistan one of Asia's fastest growing economies. For the first time in the history of Pakistan, the foreign exchange reserve has exceeded $15 billion in comparison with just below $2 billion in 2000. There has been a massive surge in FDI or foreign direct investments in Pakistan by foreigners. These investments have been in many sectors, including: industrial infrastructure, telecom, oil & gas, stock market and real estate. The stock market in Pakistan is the most bullish in the Asia Pacific region with market growth over 10 times to date (Karachi Stock Exchange on October 18, 2001 was at 1,103 points vs. about 12,500 recently). Pakistan, now a close US ally, is recognized by the western world as becoming very conducive and attractive for foreign collaboration and investments. The breakthrough 'thawing' of relationships between Pakistan and its biggest democratic neighbor, India, has stabilized the South East Asia region. This environment has raised the comfort and confidence of foreign investors and major US and European corporations to enhance their businesses in Pakistan. Due to many strategic measures and decisions by the government of Pakistan, the telecom sector has been privatized. Several new foreign telecom giants have made some serious investments in Pakistan. The biggest example is an U.A.E. based Telecom giant 'EITESALAAT' which acquired 26% or management control of 'PTCL' a government owned telecom company. Many other major state owned companies have been privatized attracting several big name global names such as Telenor of Norway and Warid Telecom of the Middle East. These companies have invested billions in the telecom sector in Pakistan. This reflects a true potential and tremendous growth opportunities in Pakistan. There has been a surge of international investors cashing on the growing privatization of some significant national assets and state run industries. Last year, Pakistan received a record $5.1 billion in foreign direct investments. A new class of entrepreneurs is emerging in Pakistan, adding to the country's economic boom. This projects a very positive image and makes Pakistan a most conducive economy into which to invest. According to a report from World Bank ranking, most rank Pakistan as the 60th country in the ease of doing business ahead of both China and India.

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

The Company is in an extremely strong position to continue to use this offshore model, which includes competitive price advantage to serve its customers. Due to all major improvements economically, politically and regionally, Pakistan's perception is improving drastically in recent months. A few major names such as Microsoft, Oracle, Cisco, Tata Consulting Services (India) and many other major names have recently signed agreements for collaboration and alliances with Pakistani companies. NetSol's few major successes achieved in 2007 were:

* The continued integration of NetSol McCue and NetSolCQ

* 5 new clients added in China, became the biggest single market

* A turnaround in our Australian market adding new names such as CNH Australia

* Launch of Thailand office

* Robust growth of NetSol's joint venture with TiG, over 120 programmers dedicated

* Continued addition of blue chip customers such as Terex Corp, Fiat, Toyota Financial, IBM Global and Investec

Major US banks and brokerage houses such as Lehman Brothers and Merrill Lynch have been bullish on Pakistan's economy as a whole and its IT sector in particular. Lehman Brothers, in 2006-2007 issued an industry report covering IT and BPO space in the emerging markets of S.E. Asia under title 'New New Markets' and highlighted Pakistan in general and NetSol in specific as the growth and emerging markets. This report was based on extensive due diligence done by Lehman Brother's research group. The report projects Pakistan as a more favorable place to do business and profiled NetSol as the best IT company. This report addresses the country risks quite fairly and rated as 'favorable' country to do business and the next emerging IT destination. Merrill Lynch repeatedly favored the opportunities in Pakistan and its future outlook. This is despite some recent political uncertainties in the country.

Some other US publications such as Newsweek, Asia Edition in March 2006 did an extensive story on 'Pakistan Promise' also highlighting the economic fundamentals and buoyancy with great optimism. NetSol was also profiled in this article as the fastest growing and the number one IT company there. In addition there have been some very positive editorials in the Wall Street Journal and other major US publications on the strong fundamentals of the Pakistan economy lifting confidence of foreign investors and businesses. The $300 million grant by the World Bank to reform the land recording system in the province of Punjab further endorses the confidence of prestigious agencies.

Just recently Moody's International assessed Pakistan as less vulnerable than many countries in the Asia Pacific region. Also, Standard & Poor's rating on Pakistan has been improved to positive. The present government has taken major bold steps to attract new foreign investment and bolster the local economy. The confidence of the local investors and foreign investors has been undoubtedly enhanced resulting in stronger demand of new listing in the stock markets.

The specific successes achieved from the acquisitions of CQ Systems and McCue Systems endorses the fact that Pakistan is a safe place to do business when compared to many other troubled spots in the Middle East. Our NetSol TiG joint venture represents the best example of not only NetSol's capabilities but the ability of a Pakistan based company to achieve off shore business model success for a Western based company. This joint venture provides the major US and UK customers of TiG-UK with world class service from NetSol Pakistan, enhancing the client's productivity at much more attractive prices. Despite the overall positive outlook for Pakistan, the company is quite prepared in any contingency to use alternate development facilities located in Beijing (China), Horsham (UK), Burlingame (USA) and Adelaide (Australia). These locations mitigate any underlying risk due to any geopolitical crises.

Organization

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

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

Intellectual Property

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

Governmental Approval and Regulation

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

Research and Development

In anticipation of an upcoming World Bank funded program, NetSol Pakistan has been proactively undertaking a Research and Development exercise to develop a proof of concept for "computerization of Land Records Management Information System (LRMIS)". NetSol's LRMIS is developed after thorough evaluations of existing manual system and client/user needs, detailed system analysis and process flow definition. It automates various land record management registers and is programmed to generate key reports on multiple parameters. Overall it provides the benefits of timely data availability, data transparency and accuracy, cost effectiveness, easy transaction tracking and better decision making using IT-enablement in a field where its need is hugely felt. As of June 30, 2007, the Company has invested approximately $888,000 on this project.

ITEM 2 - PROPERTIES

Company Facilities

The Company's headquarters have been located at 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302 since 2003. It is located in approximately 1,919 rentable square feet, with a monthly rent of $4,754. The lease is a one-year lease expiring in December 2007.

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

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
Horsham, UK (NetSol-CQ)	6,570	Computer and General Office	$	10,989
NetSol PK (Karachi Office)	1,883	General Office	$	1,726
NetSol PK (Islamabad Office)	3,240	General Office & Guest House	$	1,417

NetSol (Rawalpindi Office)	1,112	General Office	$	800
Thailand	285	Computer and General Office	$	1,035

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

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

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

Lahore Technology Campus

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

ITEM 3 - LEGAL PROCEEDINGS

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

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

NetSol conducted its annual meeting of shareholders on June 4, 2007. The following are the items that were voted upon:

1. Election of Directors

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

Director	Voted	Withhold	Percent of Total Voted	Total Shares Voted
Najeeb Ghauri	17,643,179	283,037	98.36	17,926,216
Naeem Ghauri	17,641,179	285,037	98.41	17,926,216
Salim Ghauri	17,627,273	298,943	98.33	17,926,216
Shahid Burki	17,629,232	296,984	98.34	17,926,216
Alexander Shakow	17,643,198	283,018	98.31	17,926,216
Eugen Beckert	17,622,798	302,418	98.31	17,926,216
Mark Caton	17,635,755	290,461	98.38	17,926,216

2. Ratification of Appointment of Auditors

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

Total Shares Voted	For	Against	Abstain	Percent
17,926,216	17,650,809	297,302	25,534	98.46%

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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	2005-2006		2004-2005	
Quarter	High	Low	High	Low
1st (ended September 30)	2.22	1.42	2.36	1.65
2nd (ended December 31)	1.94	1.32	2.39	1.70
3rd (ended March 31)	2.00	1.31	2.19	1.75
4th (ended June 30)	2.05	1.50	2.40	1.63

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

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

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLAN

The table shows information related to our equity compensation plans as of June 30, 2007:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans approved by Security holders	7,102,363(1)	$ 2.45(2)	4,032,148(3)
Equity Compensation Plans not approved by Security holders	None	None	None
Total	7,102,363	$ 2.45	4,032,148

(1) Consists of 31,000 under the 2001 Incentive and Nonstatutory Stock Option Plan; 972,000 under the 2002 Incentive and Nonstatutory Stock Option Plan; 745,000 under the 2003 Incentive and Nonstatutory Stock Option Plan; 3,574,363 under the 2004 Incentive and Nonstatutory Stock Option Plan; and 1,780,000 under the 2005 Incentive and Nonstatutory Stock Option Plan.

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

(3) Represents 812,148 available for issuance under the 2003 Incentive and Nonstatutory Stock Option Plan; and, 3,220,000 available for issuance under the 2005 Incentive and Nonstatutory Stock Option Plan.

(b) RECENT SALES OF UNREGISTERED SECURITIES

In April 2007, the Company issued a total of 37,896 shares of common stock to two consultants in exchange for services rendered. These shares were issued in reliance on an exemption from registration available under Regulation S of the Securities Act of 1933, as amended.

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

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

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

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

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

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

Forward Looking Information

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

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

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

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

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

· Enhance software design, engineering and service delivery capabilities by increasing investmen

· Continue to invest in research and development in an amount between 7-10% of yearly budgets in

· Recruit new sales personnel in US to grow the penetration in North American markets.

· Aggressively penetrate the booming Chinese market and continue to exploit NetSol's presence in

· Migrate up to 50% of development costs of US and UK operations to Lahore.

· Increase Capex, to enhance communications and development infrastructure. Roll out a second ph

· Market aggressively on a regional basis the Company's tri-product solutions by broader marketi

Top Line Growth through Investment in organic marketing activities. NetSol marketing act

· Expand the marketing and distributions of regional products solutions in four continents: North America, Europe, Asia Pacific and Africa.

· Expand relationships with all 40 customers in the US, Europe and Asia Pacific by offering enhanced product offerings.

· Product positioning through alliances and partnership.

· Capitalize on NetSol, McCue and NetSol-CQ affiliations with ELA (Equipment Leasing Association of N.A.) and European leasing forums.

· Become a leading IT company in APAC in asset-based applications and capitalize on the surge in demand of NetSol products.

· Joint Ventures and new alliances.

· Be a dominant IT solutions provider in Pakistan amidst of explosive growth in the economy and automation in private and public sectors.

· Hold frequent users group meetings in North America and Asia Pacific and customers road shows to attract bigger value new contracts.

Funding and Investor Relations:

· Retained a new IR and communications firm in New York to position NetSol as a strong IT company with unlimited growth and upside outlook.

· NetSol management was invited on Sep 13, 2006 to closing bell at NASDAQ Sock Exchange.

· Adequately capitalize NetSol to face challenges and opportunities presented through the most economical means and vehicles creating further stability and sustainability.

· Focus each division level to achieve optimum profitability and efficiencies to reduce the need for new external capital other than to fund major new initiatives.

· Aggressive marketing campaign on Wall Street to get the story of NetSol known to retail, institutions, micro cap funds and analysts.

· Infuse new capital from potential exercise of outstanding investors' warrants, employees' options and debt financing for business development and enhancement of infrastructures.

· Continuing to efficiently and prudently manage cash flow and budgets. Subsidiaries will contribute to support the headquarters and corporate overheads.

· Expose NetSol to various small cap and technology investors' forum across North America.

· Make every effort to enhance NetSol's market capitalization in the US.

· Reorganize the divisions globally for seamless integration to achieve better productivity, efficiency and leverage offshore capabilities to enhance margins.

Improving the Bottom Line:

· Grow topline, enhance gross profit margins to 65% by leveraging the low-cost development facility in Lahore.

· Generate much higher revenues per developer and service group, enhance productivity and lower cost per employee overall.

· Consolidate subsidiaries and integrate and combine entities to reduce overheads and employ economies of scale.

· Continue to review costs at every level to consolidate and enhance operating efficiencies.

· Grow process automation and leverage the best practices of CMMi level 5.

· Created 3 new geographic regions: North America, EMEA and APAC to leverage the infrastructure and resources and to drive direct ownership based on revenue and the bottom line. Also broke the company's business in two business groups: Global Product Group and Global Services Group.

· More local empowerment and profit and loss ownership in each country office. Institute performance based compensation structure through three areas that includes both top-line and bottom-line targets.

· Cost efficient management of every operation and continue further consolidation to improve bottom line.

· Initiated steps to consolidate some of the new lines of services businesses to improve bottom line.

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

MATERIAL TRENDS AFFECTING NETSOL

NetSol has identified the following material trends affecting NetSol

Positive trends:

· Outsourcing of services and software development is growing worldwide.

· The leasing and finance industry in North America has increased $260 billion and about the same size for the rest of world.

· Recent outpouring of very positive US press and research coverage by major banks such as Lehman Brothers and Merrill Lynch on Pakistan outlook and NetSol growing image and name.

· The influx of US companies and investors in addition to investors from all other parts of world to Pakistan. The US ranked to be the largest investors in Pakistan economy in current fiscal year 2007.

· The levy of Indian IT sector excise tax of 35% (NASSCOM) on software exports is very positive for NetSol. In Pakistan there is a 15 year tax holiday on IT exports of services. There are 10 more years remaining on this tax incentive.

·

Cost arbitrage, labor costs still very competitive and attractive when compared with India. Pakistan is significantly under priced for IT services and programmers as compared to India.

· Pakistan is one of the fastest growing IT destinations from emerging and new markets.

· Chinese market is burgeoning and wide open for NetSol's 'niche' products and services. NetSol is gaining a strong foothold in this market.

· Only a handful of IT solutions providers in the world with global distribution network, complete end-to-end solution, and presence in the world's key and strategic markets.

· One of the few global IT companies in the leasing and finance domain with gold standard CMMi level 5 accreditation.

· NetSol and NetSol PK are both listed in one of the most visible stock indexes in their respective markets.

· NetSol majority owned subsidiary NetSol PK listed on KSE (Karachi Stock Exchange) has traded at record price of Rs. 118 in July 2007. The IPO price was Rs. 25 in August 2005.

· Overall economic expansion worldwide and explosive growth in the emerging markets specifically.

· Continuous improvement of US and Indian relationships with Pakistan.

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

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

Negative trends:

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

CRITICAL ACCOUNTING POLICIES

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

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS

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

INCOME TAXES

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

CASH RESOURCES

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

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

Chief Executive Officer and Presidents of Global Regions

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

Board of Directors

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

Committees

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

RESULTS OF OPERATIONS

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

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

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

(1) Refers to NetSol Technologies Limited

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

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

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

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

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

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

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

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

· BI Consulting: a consulting division with the initial objective of targeting the banking industry. The implementation of the new International Basel II Accord by local banks has created a huge demand for solutions that allow banks to accurately quantify their risks of incurring losses. This is a predictive capability offered by business intelligence software; and, for that purpose we've aligned ourselves with the largest financial services software company, SunGard, which is also among the top ten software companies globally.

· Information Security (INFOSEC): in recognition of the ever growing awareness of highly publicized IT Security problems, NetSol has established a new business unit**.** The unit will provide services to secure all corporate information and their supporting processes, systems and networks. INFOSEC is designed to ensure *"The right information to the right people at the right time"*. NetSol is partnering with a recognized global leader in information security (ISS - Internet Security Systems) to execute this business plan.

· NetSol Defense Division (NDD): in light of our coordination with the Pakistan Defense Sector, NetSol established its very own Defense Division to cater specifically to the growing demands in this domain and to deliver services with the professionalism and reliability that epitomizes NetSol's CMMi Level 5 standing.

· Enterprise Business Solutions (EBS): due to the dynamic nature of the business environment and the increasing demand for operational efficiency in today's world, NetSol has built its own Enterprise Business Solutions (EBS) division partnering with Oracle and DataStream. With EBS, NetSol gives companies the ability to manage, maintain and track assets, plus the ability to use this data to drive decision-making in areas such as Maintenance, Inventory, Warranty, Up-time Reliability & Risk Management.

The gross profit was $15,623,107 for year ended June 30, 2007 as compared with $9,669,894 for the same period of the previous year. This is a 62% increase. The gross profit percentage was 53% for the current fiscal year and 52% in the prior year. The cost of sales was $13,658,979 in the current year compared to $9,020,518 in the prior year. Although salaries and consultant fees increased $2,695,048 from $6,117,886 in the prior year to $8,812,934, as a percentage of sales, it decreased 3% from 33% in the prior year to 30% in the current year. The company hired over 84 new programmers and engineers to meet the growing demand, including 14 for the new acquisition, NetSol

McCue. The current fiscal year includes the added costs of the new acquisition of McCue Systems. In addition, the Company has added several new business divisions in Pakistan hiring the best talent in these specialized areas. It takes between 18-24 months for these new business units to fully develop their offerings and begin generating revenues. A few of these units are now producing revenues at the close of fiscal year end 2007. The rest of the divisions are anticipated to start generating revenues in the next two quarters. With the addition of NetSol-CQ and NetSol McCue, several new programmers have been hired in Lahore to learn the systems, and at the end of the current fiscal year these programmers were just beginning to finish their training period and become productive. Even with the additional costs, as a percentage of sales, the cost of sales decreased from 48% to 47%. The gross profit margin is expected to continue to improve as the integration of both the operations in Horsham, UK and Burlingame, US are fully integrated and cost savings are achieved. The Company has invested heavily in its infrastructure, both in people and equipment during the current fiscal year as it situated itself for increased growth organically and from the acquisitions of NetSol-CQ in February 2005 and NetSol McCue in June 2006.

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

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

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

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

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

The net EBITDA loss was $1,417,368 compared to income of $2,215,903 after amortization and depreciation charges of $2,641,272 and $3,020,048, income taxes of $160,306 and 106,021, and interest expense of $658,615 and $442,887 respectively. With the addition of the non-cash charge for the amortized costs of debt of $2,803,691 and the beneficial conversion feature expense of $2,208,334 the adjusted pro forma EBITDA income would be $3,594,657 for the fiscal year ended June 30, 2007 and the adjusted pro forma EBITDA earnings per share, basic and diluted, would be $0.20.

Although the net EBITDA income is a non-GAAP measure of performance, we are providing it because we believe it to be an important supplemental measure of our performance that is commonly used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry. It should not be considered as an alternative to net income, operating income or any other financial measures calculated and presented, nor as an alternative to cash flow from operating activities as a measure of our liquidity. It may not be indicative of the Company's historical operating results nor is it intended to be predictive of potential future results.

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

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

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

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

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

Bonus stock dividend (minority holders portion)						
Net income (loss) applicable to common shareholders		877,092	10.23%		(1,703,654)	-36.64%
Other comprehensive (loss)/gain:						
Translation adjustment		(259,113)			(100,069)	
Comprehensive income (loss)	$	617,979		$	(1,803,723)	
Net income (loss) per share:						
Basic	$	0.07		$	(0.11)	
Diluted	$	0.07		$	(0.11)	
Weighted average number of shares outstanding						
Basic		19,706,920			15,468,248	
Diluted		19,835,177			15,468,248	

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Liquidity and Capital Resources

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

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

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

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

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

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

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

· The third payment of NetSol McCue would be due based on the ‘earn out’ formula. This could be in the range of $1.0 million to $2.0 million in cash and common stock. This is based on an earn out structure and the Company expects to fund it through internal cash flow;

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