NETSOL TECHNOLOGIES INC
Form 10-Q
November 14, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

( ) For the transition period from __________ to __________

Commission file number: 0-22773

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

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

24025 Park Sorrento, Suite 410, Calabasas, CA 91302
(Address of principal executive offices) (Zip Code)

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

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

Yes X No___

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

Large Accelerated Filer __	Accelerated Filer ___
Non-Accelerated Filer __	Small Reporting Company _X__

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ___ No X

The issuer had 7,931,489 shares of its $.01 par value Common Stock and no shares of Series A 7% Cumulative Convertible Preferred Stock issued and outstanding as of November 12, 2012.

NETSOL TECHNOLOGIES, INC.

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

ASSETS	As of September 30, 2012	As of June 30, 2012
Current assets:		
Cash and cash equivalents	$ 8,019,788	$ 7,599,607
Restricted cash	1,712,673	141,231
Accounts receivable, net	18,077,796	13,757,637
Revenues in excess of billings	10,529,745	12,131,329
Other current assets	2,357,261	2,648,302
Total current assets	40,697,263	36,278,106
Property and equipment, net	17,437,469	16,912,795
Intangible assets, net	28,772,866	28,502,983
Goodwill	9,653,330	9,653,330
Total intangibles	38,426,196	38,156,313
Total assets	$ 96,560,928	$ 91,347,214
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,242,659	$ 3,869,355
Current portion of loans and obligations under capitalized leases	3,430,619	1,896,238
Other payables - acquisitions	103,226	103,226
Unearned revenues	4,274,011	2,704,661
Convertible notes payable, current portion	2,681,861	2,809,093
Loans payable, bank	2,092,926	2,116,402
Common stock to be issued	108,875	105,575
Total current liabilities	16,934,177	13,604,550
Obligations under capitalized leases, less current maturities	303,581	260,107
Convertible notes payable less current maturities	-	936,364
Long term loans; less current maturities	1,506,457	1,551,541
Total liabilities	18,744,215	16,352,562
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 15,000,000 shares authorized; 7,907,455 & 7,513,745 issued and outstanding as of September 30, 2012 and June 30, 2012	79,075	75,137
Additional paid-in-capital	108,576,679	106,101,165
Treasury stock	(415,425)	(415,425)
Accumulated deficit	(30,755,274)	(31,684,399)
Stock subscription receivable	(2,269,488)	(2,119,488)
Other comprehensive loss	(12,897,998)	(12,361,759)
Total NetSol shareholders' equity	62,317,569	59,595,231

Non-controlling interest		15,499,144		15,399,421
Total stockholders' equity		77,816,713		74,994,652
Total liabilities and stockholders' equity	$	96,560,928	$	91,347,214

See accompanying notes to these unaudited consolidated financial statements.

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	For the Three Months Ended September 30, 2012	2011
Net Revenues:		
License fees	$ 3,241,501	$ 1,075,850
Maintenance fees	2,045,706	2,037,206
Services	5,784,693	3,115,652
Total net revenues	11,071,900	6,228,708
Cost of revenues:		
Salaries and consultants	3,385,668	2,383,411
Travel	325,294	285,673
Repairs and maintenance	127,997	74,194
Insurance	37,719	35,868
Depreciation and amortization	958,151	789,105
Other	921,858	516,409
Total cost of revenues	5,756,687	4,084,660
Gross profit	5,315,213	2,144,048
Operating expenses:		
Selling and marketing	762,963	700,281
Depreciation and amortization	342,001	191,674
Salaries and wages	1,153,873	806,564
Professional services, including non-cash compensation	206,502	186,749
General and adminstrative	1,347,928	1,085,222
Total operating expenses	3,813,267	2,970,490
Income (loss) from operations	1,501,946	(826,442)
Other income and (expenses)		
Loss on sale of assets	14,296	(1,641)
Interest expense	(292,389)	(251,430)
Interest income	24,167	32,805
Gain (loss) on foreign currency exchange transactions	395,156	(120,906)
Share of net loss from equity investment	-	(100,000)
Beneficial conversion feature	(367,744)	(21,583)
Other expense	(32)	(7,719)
Total other expenses	(226,546)	(470,474)
Net income (loss) before income taxes	1,275,400	(1,296,916)
Income taxes	(13,996)	(24,534)
Net income (loss) after tax	1,261,404	(1,321,450)
Non-controlling interest	(332,279)	(137,258)
Net income (loss) attibutable to NetSol	929,125	(1,458,708)
Other comprehensive income (loss):		
Translation adjustment	(768,795)	(974,199)
Comprehensive income (loss)	160,330	(2,432,907)
Comprehensive loss attributable to non controlling interest	(232,556)	(417,360)
Comprehensive income (loss) attributable to NetSol	392,886	(2,015,547)
Net income (loss) per share:		

Basic	$ 0.12	$ (0.26)
Diluted	$ 0.12	$ (0.26)
Weighted average number of shares outstanding		
Basic	7,591,891	5,588,327
Diluted	7,599,136	5,588,327
Amounts attributable to NetSol common shareholders		
Net income / (loss)	$ 929,125	$ (1,458,708)

See accompanying notes to these unaudited consolidated financial statements.

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

	For the Three Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 1,261,404	$ (1,321,450)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,300,152	980,778
Provision for bad debts	-	192,250
Share of net loss from investment under equity method	-	100,000
(Gain) loss on sale of assets	(14,296)	1,641
Stock issued for interest on notes payable	211,111	-
Stock issued for services	29,670	118,300
Fair market value of warrants and stock options granted	227,926	59,852
Beneficial conversion feature	367,744	21,583
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(4,320,159)	1,658,238
Decrease in other current assets	1,892,625	169,558
Increase (decrease) in accounts payable and accrued expenses	1,942,654	(1,096,850)
Net cash provided by operating activities	2,898,831	883,900
Cash flows from investing activities:		
Purchases of property and equipment	(1,457,134)	(1,427,884)
Sales of property and equipment	60,501	2,591
Investment under equity method	-	(100,000)
Increase in intangible assets	(1,091,966)	(1,768,681)
Net cash used in investing activities	(2,488,599)	(3,293,974)
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	252,900	140,000
Payment to common shareholders against fractional shares	(194)	-
Proceeds from convertible notes payable	-	4,000,000
Payments on convertible notes payable	-	(2,758,330)
Restricted cash	(1,571,442)	3,000,000
Bank overdraft	59,913	40,201
Proceeds from bank loans	2,591,135	1,873,486
Payments on capital lease obligations & loans - net	(1,160,684)	(4,885,224)
Net cash provided by financing activities	171,628	1,410,133
Effect of exchange rate changes in cash	(161,679)	(49,175)
Net increase (decrease) in cash and cash equivalents	420,181	(1,049,116)
Cash and cash equivalents, beginning of year	7,599,607	4,172,802
Cash and cash equivalents, end of year	$ 8,019,788	$ 3,123,686

See accompanying notes to the unaudited consolidated financial statements.

	For the Three Months Ended September 30, 2012	2011
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$ 102,198	$ 464,156
Taxes	$ 24,253	$ (6,810)
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Stock issued for the conversion of Notes Payable	$ 1,050,000	$ -

See accompanying notes to the unaudited consolidated financial statements.

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2012. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

The accompanying consolidated financial statements include the accounts of NetSol Technologies, Inc. and subsidiaries (collectively, the "Company") as follows:

Wholly-owned Subsidiaries
NetSol Technologies North America, Inc. ("NTNA").
NetSol Connect (Private), Ltd. ("Connect)
NetSol-Abraxas Australia Pty Ltd. ("Abraxas")
NetSol Technologies Europe Limited ("NTE")
NTPK (Thailand) Co. Limited ("NTPK Thailand")
Vroozi, Inc. ("Vroozi")
NetSol Technologies (Beijing) Co. Ltd. (NetSol Beijing)

Majority-owned Subsidiaries
NetSol Technologies, Ltd. ("NetSol PK")
NetSol Innovation (Private) Limited ("NetSol Innovation")
Virtual Lease Services Holdings Limited ("VLSH")
Virtual Lease Services Limited ("VLS")
Hanover Asset Finance (Ireland) Limited ("HAFL")

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

NOTE 2 – ACCOUNTING POLICIES

Use of Estimates

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

New Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment ("ASU 2012-02"). ASU 2012-02 provides entities with an option to first assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If an entity concludes that it is more than 50% likely that an indefinite-lived intangible asset is not impaired, no further analysis is required. However, if an entity concludes otherwise, it would be required to determine the fair value of the indefinite-lived intangible asset to measure the amount of actual impairment, if any, as currently required under US GAAP. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. Except for the option to perform the qualitative assessment, the Company does not anticipate that the adoption of the new standard will have a material impact on the Company.

In December 2011, the FASB issued guidance on offsetting (netting) assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This guidance will be effective for interim and annual periods beginning on January 1, 2013, and will be applied retrospectively for all comparative periods presented. The adoption of this guidance will result in increased interim and annual financial statement disclosures, but will not affect our financial condition, results of operations, or cash flows.

NOTE 3 – ACQUISITION

On October 4, 2011, NTE, a wholly owned subsidiary of the Company, entered into an agreement with Investec Asset Finance PLC (“Investec”) a UK corporation, in which the Company obtained a 51% controlling interest in a newly-formed entity, Virtual Lease Services Holdings Limited (“VLSH”), which in turn acquired a 100% interest in Virtual Lease Services Limited (“VLS”). The purchase price paid in this transaction was entirely in the form of cash in the amount of $1,008,859.

At the time of acquisition the fair value of assets and liabilities acquired were as follows:

Cash	$755,667
Accounts Receivable	469,970
Fixed Assets	200,579
Customer List	248,320
Technology	242,702
Liabilities	(330,071)
Noncontrolling interest	(792,351)
Net Assets Acquired	794,815
Proceeds	1,008,859
Goodwill	$214,044

The acquisition of VLS is in alignment with the Company’s strategic plans and contributes to the continued expansion into technology markets through membership and practice acquisitions.

NOTE 4 – EARNINGS/ (LOSS) PER SHARE

Basic earnings per share are computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, warrants, and stock awards.

The components of basic and diluted earnings per share were as follows:

For the three months ended September 30, 2012	Net Income	Shares	Per Share
Basic income per share:	$ 929,125	7,591,891	$ 0.12
Net income available to common shareholders			
Effect of dilutive securities			
Warrants		7,245	
Diluted income per share	$ 929,125	7,599,136	$ 0.12

For the three months ended September 30, 2011	Net Income	Shares	Per Share
Basic loss per share:	$ (1,458,708)	5,588,327	$ (0.26)
Net income available to common shareholders			
Effect of dilutive securities			
Warrants			
Diluted loss per share	$ (1,458,708)	5,588,327	$ (0.26)

NOTE 5 – OTHER COMPREHENSIVE INCOME & FOREIGN CURRENCY:

The accounts of NTE, VLSH and VLS use the British Pound; HAFL uses the Euro; NetSol PK, Connect, and NetSol Innovation use Pakistan Rupees; NTPK Thailand uses Thai Baht; Abraxas uses the Australian dollar; and NetSol Beijing uses Chinese Yuan as the functional currencies. NetSol Technologies, Inc., and its subsidiaries, NTNA and Vroozi, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Accumulated translation losses are classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet were $12,897,998 and $12,361,759 as of September 30, 2012 and June 30, 2012 respectively. During the three months ended September 30, 2012 and 2011, comprehensive loss in the consolidated statements of operations included translation loss of $536,239 and $556,839 respectively.

NOTE 6 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of September 30 2012	As of June 30 2012
Prepaid Expenses	$ 591,883	$ 596,180
Advance Income Tax	783,874	763,147
Employee Advances	33,773	24,026
Security Deposits	180,066	178,428
Tender Money Receivable	102,112	111,437
Other Receivables	287,176	511,466
Other Assets	378,377	463,618
Total	$ 2,357,261	$ 2,648,302

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NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment, net, consisted of the following:

	As of September 30 2012	As of June 30 2012
Office furniture and equipment	$ 1,950,176	$ 1,917,221
Computer equipment	15,843,251	14,986,148
Assets under capital leases	2,065,524	1,877,145
Building	2,109,511	2,133,174
Land	2,021,330	2,044,003
Capital work in progress	4,396,095	4,163,730
Autos	603,460	648,305
Improvements	232,214	230,759
Subtotal	29,221,561	28,000,485
Accumulated depreciation	(11,784,092)	(11,087,690)
	$ 17,437,469	$ 16,912,795

For the three months ended September 30, 2012 and 2011, depreciation expense totaled $754,108 and $636,568 respectively. Of these amounts, $454,745 and $462,543 respectively, are reflected in cost of goods sold.

The Company's capital work in progress consists of ongoing enhancements to its facilities and infrastructure as necessary to meet the Company's expected long term growth needs. The Company recorded capitalized interest of $424,589 and $331,145 as of September 30, 2012 and June 30, 2012, respectively.

Assets acquired under capital leases were $2,065,524 and $1,877,145 as of September 30, 2012 and June 30, 2012, respectively. Accumulated amortization related to these leases was $900,790 and $807,562 for the years ended June 30, 2012 and 2011, respectively.

NOTE 8 - INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of September 30, 2012	As of June 30, 2012
Product licenses	$ 42,942,371	$ 42,072,045
Customer lists	6,052,377	6,052,377
Technology	242,702	242,702
	49,237,450	48,367,124
Accumulated amortization	(20,464,584)	(19,864,141)
Intangible assets, net	$ 28,772,866	$ 28,502,983

(A) Product Licenses

Product licenses include internally-developed original license issues, renewals, enhancements, copyrights, trademarks, and trade names. Product licenses include unamortized software development and enhancement costs of $19,390,935. Product licenses are being amortized on a straight-line basis over their respective lives, which is currently a weighted average of approximately 8 years. Amortization expense for the three months ended September 30, 2012 and 2011 was $503,406 and $326,562, respectively.

(B) Customer Lists

On October 4, 2011, the Company entered into an agreement to acquire a UK based company “Virtual Leasing Services Limited” through one of its subsidiaries. As a result of this acquisition, the Company recorded $248,320 of an existing customer list.

Customer lists are being amortized based on a straight-line basis, which approximates the anticipated rate of attrition, which is currently a weighted average of approximately 5 years. Amortization expense for the three months ended September 30, 2012 and 2011 was $30,286 and $17,648, respectively.

(C) Technology

On October 4, 2011, the Company entered into an agreement to acquire a UK based company, Virtual Leasing Services Limited, through one of its subsidiaries. As a result of this acquisition, the Company recorded $242,702 of existing technology. Technology assets are being amortized on a straight-line basis over their respective lives, which is currently a weighted average of approximately 5 years. Amortization expense for the three months ended September 30, 2012 and 2011 was $12,353 and $Nil.

(D) Future Amortization

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

Year ended;	
September 30, 2013	2,063,192
September 30, 2014	1,864,121
September 30, 2015	1,424,106
September 30, 2016	1,042,202
September 30, 2017	794,023
Thereafter	21,585,224

NOTE 9 – GOODWILL

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in businesses combinations. Goodwill was comprised of the following amounts:

	As of September 30, 2012	As of June 30, 2012
Asia Pacific	$ 1,303,372	$ 1,303,372
Europe	3,685,858	3,685,858
USA	4,664,100	4,664,100
Total	$ 9,653,330	$ 9,653,330

On October 4, 2011, the Company entered into an agreement to acquire a UK based company, Virtual Leasing Services Limited, through one of its subsidiaries. As a result of this acquisition, the Company recorded goodwill of $214,044.

The Company has determined that there was no impairment of the goodwill for either period presented.

NOTE 10 – INVESTMENT UNDER EQUITY METHOD

On April 10, 2009, the Company entered into an agreement to form a joint venture with the Atheeb Trading Company, a member of the Atheeb Group ("Atheeb"). The joint venture entity Atheeb NetSol Saudi Company Ltd. is a company organized under the laws of the Kingdom of Saudi Arabia. The venture was formed with an initial capital contribution of $268,000 by the Company and $266,930 by Atheeb with a profit sharing ratio of 50.1:49.9, respectively. The final formation of the company was completed on March 7, 2010.

Investment during the period	100,000
Net loss for the year ended June 30, 2012	(503,303)
NetSol's share (50.1%)	(252,155)
Unabsorbed losses brought forward	(51,731)
Total loss	(303,886)
Loss adjusted against investment	(100,000)
Loss adjusted against advance to investee	(200,000)
Net book value at June 30, 2012	$ -
Investment during the period	-
Net loss for the period ended September 30, 2012	(200,965)
NetSol's share (50.1%)	(100,683)
Unabsorbed losses brought forward	(3,657)
Total loss	(104,340)
Loss adjusted against investment	-
Loss adjusted against advance to investee	-
Net book value at September 30, 2012	$ -

NOTE 11 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of September 30 2012	As of June 30 2012
Accounts Payable	$ 1,393,336	$ 1,278,452
Accrued Liabilities	2,049,595	1,778,414
Accrued Payroll	84,747	17,097
Accrued Payroll Taxes	239,759	158,626
Interest Payable	123,356	326,746
Deferred Revenues	32,417	32,463
Taxes Payable	319,449	277,557
Total	$ 4,242,659	$ 3,869,355

NOTE 12 - DEBTS

(A) LOANS AND LEASES PAYABLE

Notes payable consisted of the following:

Name	As of September 30 2012	Current Maturities	Long-Term Maturities
D&O Insurance	$ 45,280	$ 45,280	$ -
Habib Bank Line of Credit	1,629,382	1,629,382	-
Bank Overdraft Facility	389,560	389,560	-
HSBC Loan	1,340,630	357,404	983,226
Term Finance Facility	915,655	392,424	523,231
Subsidiary Capital Leases	920,150	616,569	303,581
	$ 5,240,657	$ 3,430,619	$ 1,810,038

Name	As of June 30 2012	Current Maturities	Long-Term Maturities
D&O Insurance	$ 89,996	$ 89,996	$ -
Habib Bank Line of Credit	51,231	51,231	-
Bank Overdraft Facility	308,013	308,013	-
HSBC Loan	1,367,644	345,203	1,022,441
Term Finance Facility	1,058,201	529,101	529,100
Subsidiary Capital Leases	832,801	572,694	260,107
	$ 3,707,886	$ 1,896,238	$ 1,811,648

The Company finances Directors' and Officers' ("D&O") liability insurance as well as Errors and Omissions ("E&O") liability insurance, for which the total balances are renewed on an annual basis and as such are recorded in current maturities. The interest rate on the insurance financing was 0.42% and 0.42% as of September 30 and June 30, 2012, respectively. Interest paid during the period ended September 30, 2012 and 2011 was nominal.

In April 2008, the Company entered into an agreement with Habib American Bank to secure a line of credit to be collateralized by Certificates of Deposit held at the bank. The interest rate on this line of credit is variable and was 1.99% as of September 30 and June 30, 2012, respectively.

Interest expense during the three months ended September 30, 2012 and 2011 was $3,208 and $20,114, respectively.

In June 2012, the Company's subsidiary, NTNA entered into an agreement with Habib American Bank to secure a line of credit up to $500,000 to be collateralized by Certificates of Deposit of same value held at the bank. The interest rate on this line of credit is variable and was 1.99% as of June 30, 2012. Interest expense during the three months ended September 30, 2012 was $564.

The amount mentioned above, represents combine outstanding balance payable to Habib American Bank.

In February 2012, the Company entered into agreement with HSBC for the issuance of stand by letter of credit worth $90,000 in favor of landlord against the new office space. The Company has deposited $90,000 in a saving account with HSBC as collateral against this letter of credit.

In January 2011, the Company's subsidiary, NTE entered into an overdraft facility with HSBC Bank plc whereby the bank would cover any overdrafts up to £200,000, or approximately $323,380. The agreement was later revised in July 2012 whereby the limit was increased to £300,000 or $485,070 approximately until September 30, 2012 whereby it again reverts to £200,000 or $323,380 until December 2012. The annual interest rate is 4.25% over the bank's sterling base rate, which was 0.5% as of September 30 and June 30, 2012, respectively. Total outstanding balance as of September 30, 2012 was £240,930 or $389,560 approximately.

In October 2011, the Company's subsidiary, NTE, entered into a loan agreement with HSBC Bank to finance the acquisition of 51% of controlling interest in Virtual Leasing Services Limited. HSBC Bank guaranteed the loan up to a limit of £1,000,000, or approximately $1,616,900 for a period of 5 years with monthly payments of £18,420, or $29,783 approximately. The interest rate was 4% which is 3.5% above bank sterling base rate. The subsidiary has used this facility up to £829,135, or $1,340,630, of which £608,093, or $983,226, was shown as long term and remaining £221,043, or $357,404, as current maturity. Interest expense, for the period ended September 30, 2012, was £13,714, or $21,665.

The Company's subsidiary, NetSol PK, entered into two different term finance facilities from Askari Bank to finance the construction of a new building. The aggregate amount of these facilities is Rs. 162,500,000 or approximately $1,700,502 approximately (secured by the first charge of Rs. 580 million or approximately $6.07 million over the land, building and equipment of the company). The interest rate is 2.75% above the six-month Karachi Inter Bank Offering Rate. As of June 30, 2012, the subsidiary had used Rs. 100,000,000 or approximately $1,046,464 of which $523,232 was shown as long term liabilities and the remainder of $523,232 as current maturity. As of the period ended September 30, 2012, the company has used a total of Rs. 87,500,000 or approximately $915,655 of which $523,231 is shown as long term liabilities and the remainder of $392,424 as current maturity.

The Company leases various fixed assets under capital lease arrangements expiring in various years through 2016. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lesser of their related lease terms or their estimated useful lives and are secured by the assets themselves. Depreciation of assets under capital leases is included in depreciation expense for the three months ended September 30, 2012 and 2011.

Following is the aggregate minimum future lease payments under capital leases as of September 30 and June 30, 2012:

	As of September 30 2012	As of June 30 2012
Minimum Lease Payments		
Due FYE 9/30/12	$ -	$ 629,251

Due FYE 9/30/13		682,882		215,953
Due FYE 9/30/14		236,056		71,218
Due FYE 9/30/15		99,123		-
Total Minimum Lease Payments		1,018,061		916,422
Interest Expense relating to future periods		(97,911)		(83,621)
Present Value of minimum lease payments		920,150		832,801
Less: Current portion		(616,569)		(572,694)
Non-Current portion	$	303,581	$	260,107

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Following is a summary of fixed assets held under capital leases as of September 30 and June 30, 2012:

	As of September 30 2012	As of June 30 2012
Computer Equipment and Software	$ 749,891	$ 702,637
Furniture and Fixtures	403,428	403,439
Vehicles	609,989	468,853
Building Equipment	302,216	302,216
Total	2,065,524	1,877,145
Less: Accumulated Depreciation	(970,941)	(900,790)
Net	$ 1,094,583	$ 976,355

Interest expense for the three months ended September 30, 2012 and 2011 was $18,621 and $18,688, respectively.

(B) LOANS PAYABLE - BANK

The Company's subsidiary, NetSol PK, has a loan with a bank, secured by the company's assets. This loan consists of the following as of September 30 and June 30, 2012:

For the year ended September 30, 2012:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE	BALANCE USD
Export Refinance	Every 6 months	11.00 %	$ 2,092,926
Total			$ 2,092,926

For the year ended June 30, 2012:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE	BALANCE USD
Export Refinance	Every 6 months	11.00 %	$ 2,116,402
Total			$ 2,116,402

Interest expense for the three months ended September 30, 2012, and 2011 was $57,406 and $62,920, respectively.

NOTE 13 – OTHER PAYABLE AND COMMON STOCK TO BE ISSUED

On June 30, 2006, the Company acquired McCue Systems, Inc. ("McCue"), a California corporation (subsequently renamed NetSol Technologies North America, Inc.) The total purchase price was $7,080,385, including $3,784,635 of cash and 1,712,332 shares of the Company's common stock. Of the total purchase price, the accompanying consolidated financial statements include certain amounts payable to McCue shareholders that have not been located as of the date of this report.

As of the period-ended September 30 and June 30, 2012, the remaining cash due of $103,226 is shown as "Other Payable" and the remaining stock to be issued of 4,670 shares at an average price of $18.90 is shown in "Common stock to be issued” in the accompanying consolidated financial statements.

NOTE 14 – CONVERTIBLE NOTES PAYABLE

The net outstanding balance of convertible notes as of September 30 and June 30, 2012 is as follows:

Issue Date	Balance net of BCF @ 9/30/12	Current Portion	Long Term	Maturity Date
Sep-12	2,681,861	2,681,861	-	Sep-13
Total	2,681,861	2,681,861	-	

Issue Date	Balance net of BCF @ 6/30/12	Current Portion	Long Term	Maturity Date
Sep-11	3,745,457	2,809,093	936,364.25	Sep-13
Total	3,745,457	2,809,093	936,364.25	

For the periods ended September 30, 2012 and 2011, the interest accrued on convertible notes was $225,011 and $116,262, respectively.

(A) 2011 CONVERTIBLE DEBT

On September 13, 2011, NetSol Technologies, Inc. entered into a purchase agreement to sell convertible notes with a total principal value of $4,000,000 and warrants to purchase shares of common stock to an investment fund managed by CIM Investment Management Limited and another accredited investor. The notes have a 2 year maturity date and are convertible into shares of common stock at the initial conversion price of $8.95 per share. The warrants entitle the investors to acquire a total of 140,845 shares of common stock, have a 5 year term, and have an initial exercise price of $8.95 per share. The Notes and Warrant terms contain standard anti-dilution protection. The Company raised new capital through a follow on offering under its registered shelf offering on form S-3 in March 2012 and as a result, the conversion price of note and exercise price of warrants has been adjusted downward from $8.95 to $7.73. Resultantly, the number of warrants has also been increased to 163,021. The proceeds of the Note were assigned between warrants and convertible note per ASC 470-20. The Company recorded $401,648 capitalized financing cost and discount of $19,665 on shares to be issued upon conversion of note into equity.

On September 13, 2012, the parties replaced the note with a new note for the same principal amount, an elimination of a shareholders' receivable condition, a decrease in the interest rate and a decrease in the conversion price from $7.73 to $4.93.

From July 1, 2012 to the date of exchange, the company accrued interest amounting to $144,000 at default rate due to non-compliance of one of the note provisions.

The Company has expensed out balance amount of financing cost and discount on the old note at the date of replacement and recorded a further discount of $381,339 which will be amortized over the remaining life of note. However due to partial conversion of notes worth $1,050,000 till September 30, 2012, out of this discount, a total amount of $113,200 has been expensed out in these consolidated financial statements. Due to the reduction in conversion price the number of warrants has also been adjusted to 168,943.

NOTE 15 - STOCKHOLDERS' EQUITY

(A) TREASURY STOCK

On November 11, 2011, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 250,000 of its shares of common stock over the following 6 months. The shares are to be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion. The Company repurchased 4,430 shares of common stock from open market against cash consideration of $19,417 until September 30, 2012. The repurchase program expired by its own terms in May 2012. The balance as of September 30 and June 30, 2012 was $415,425.

(B) SHARES ISSUED FOR SERVICES TO RELATED PARTIES

During the three months ended September 30, 2012 and 2011, the Company issued a total of 2,500 and 2,250 shares of restricted common stock for services rendered by the officers of the Company. These shares were valued at the fair market value of $11,500 and $37,575 respectively.

The Company recorded an expense of $13,700 and $97,500 against the services rendered by officers during the three months ended September 30, 2012 and 2011.

During the three months ended September 30, 2012 and 2011, the Company issued a total of Nil and 8,000 shares of restricted common stock for services rendered by the independent members of the Board of Directors as part of their board compensation. These shares were valued at the fair market value of $Nil and $133,600 respectively.

The Company recorded an expense of $Nil and $20,800 for services rendered by the independent members of the Board of Directors as part of their board compensation during the three months ended September 30, 2012 and 2011.

During the period ended September 30, 2012 and 2011, the Company issued a total of 1,250 and Nil shares of its common stock to employees as required according to the terms of their employment agreements valued at $5,750 and $Nil, respectively.

The Company recorded an expense of $6,850 and $Nil as part of compensation to employees as required according to the terms of their employment agreements during the three months ended September 30, 2012 and 2011.

(C) SHARE-BASED PAYMENT TRANSACTIONS

During the period ended September 30, 2012, and June 30, 2012, the Company issued a total of 2,400 and 17,300 shares of its common stock for provision of services to unrelated consultants valued at $9,120 and $91,520, respectively.

(D) REVERSE STOCK SPLIT

On August 6, 2012 the shareholders of the Company authorized the board of directors to conduct a reverse split of the common stock of the Company in a range from 5 to 15 shares into one. Pursuant to the authority granted, the board approved the ratio of 10:1 for the reverse split which was effectuated on August 13, 2012. All figures have been presented on this basis of reverse split where ever applicable for all the periods presented in these financial statements.

NOTE 16 - INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

Common stock purchase options and warrants consisted of the following:

	# of shares	Exercise Price	Aggregated Intrinsic Value
Outstanding and exercisable, June 30, 2011	691,932	$ 30.00 to $50.00	$ -
Granted	351,259	$ 3.00 to $7.50	
Exercised	(231,259)	$ 3.00 to $12.50	
Expired / Cancelled	(8,499)	$ 7.50 to $16.50	
Outstanding and exercisable, June 30, 2012	803,433	$ 6.50 to $50.00	$ -
Granted	94,922	$ 3.50 to $4.75	
Exercised	(94,922)	$ 3.50 to $4.75	
Expired / Cancelled	(53,002)	$ 25.00 to $29.10	
Outstanding and exercisable, September 30, 2012	750,431	$ 6.50 to $50.00	$ -
WARRANTS:			
Outstanding and exercisable, June 30, 2011	17,823	$ 3.10 to $37.00	$ -
Granted	246,396	$ 5.00 to $7.73	
Exercised			
Expired	(2,500)	$ 18.50 to $37.00	
Outstanding and exercisable, June 30, 2012	261,719	$ 3.10 to $7.73	$ (30,105)
Granted / adjusted	5,922		
Exercised	(15,323)	$ 3.10	
Expired			
Outstanding and exercisable, September 30, 2012	252,318	$ 5.00 to $7.46	$ -

The average life remaining on the options and warrants as of September 30, 2012 is as follows:

Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Ave Exericse Price
OPTIONS:			
Issued by the Company			
$ 0.10 - $9.90	270,000	5.20	6.98
$ 10.00 - $19.90	187,431	2.91	18.94
$ 20.00 - $29.90	229,000	2.67	26.55
$ 30.00 - $50.00	64,000	1.30	43.83
Totals	750,431	3.52	19.08
WARRANTS:			
$ 3.10 - $7.73	252,318	4.05	6.65
Totals	252,318	4.05	6.65

All options and warrants granted are vested and are exercisable as of September 30, 2012.

(A) INCENTIVE AND NON-STATUTORY STOCK OPTION PLANS

The Company maintains several Incentive and Non-Statutory Stock Option Plans (“Plans”) for its employees and consultants. Options granted under these Plans to an employee of the Company become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares are exercisable annually. Options are not exercisable, in whole or in part, prior to one (1) year from the date of grant unless the Board specifically determines otherwise, as provided.

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

OPTIONS

During the quarter ended September 30, 2012, the Company granted 28,572 options to two employees with an exercise price of $3.50 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $20,036 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.07%

Expected life 1 month

Expected volatility 27.27%

During the quarter ended September 30, 2012, the Company granted 16,350 options to one employee with an exercise price of $4.00 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $4,209 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.08%

Expected life 1 month

Expected volatility 28.43%

During the quarter ended September 30, 2012, the Company granted 50,000 options to two employees with an exercise price of $4.75 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $55,040 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.1%

Expected life 1 month

Expected volatility 26.58%

WARRANTS

During the quarter ended September 30, 2011, the Company entered into an agreement to issue the 2011 Convertible Note together with warrants to purchase 140,845 warrants of common stock at an initial exercise price of $8.95 per share with a life of five years. The Notes and Warrants terms contain anti-dilution protection. The fair market value of these warrants was calculated as $446,480 by using Black Scholes value method. Using this value, the proceeds of Convertible note were allocated between warrants and convertible based on their relative fair values. The Company recorded $401,648 capitalized financing cost which will be amortized over the life of the note. As a result of new capital raised under the shelf registration on form S-3 the conversion price of note and exercise price of warrants has been adjusted downward from $8.95 to $7.73 and number of warrants have been increased to 163,021. Moreover, the Company also offered Aegis Capital Corp., the right to exercise 5% warrants at an exercise price of 125% of the offering price.

On September 13, 2012, the parties replaced the note with a new note for the same principal amount, an elimination of a shareholders' receivable condition, a decrease in the interest rate and a decrease in the conversion price from $7.73 to $4.93. Due to reduction in the note conversion price, the exercise price of warrants has been adjusted downward from $7.73 to $7.46 and the number of warrants has increased from 163,021 to 168,943.

(B) EQUITY INCENTIVE PLAN

In May 2011, the shareholders approved the 2011 Equity Incentive Plan (the "2011 Plan") which provides for the grant of equity-based awards, including options, stock appreciation rights, restricted stock awards or performance share awards or any other right or interest relating to shares or cash, to eligible participants. The aggregate number of shares reserved and available for award under the 2011 Plan is 500,000 (the Share Reserve). The 2011 Plan contemplates the issuance of common stock upon exercise of options or other awards granted to eligible persons under the 2011 Plan. Shares issued under the 2011 Plan may be both authorized and unissued shares or previously issued shares acquired by the Company. Upon termination or expiration of an unexercised option, stock appreciation right or other stock-based award under the 2011 Plan, in whole or in part, the number of shares of common stock subject to such award again becomes available for grant under the 2011 Plan. Any shares of restricted stock forfeited as described below will become available for grant. The maximum number of shares that may be granted to any one participant in any calendar year may not exceed 50,000 shares. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

STOCK OPTIONS

Options granted under the 2011 Plan are not generally transferable and must be exercised within 10 years, subject to earlier termination upon termination of the option holder's employment, but in no event later than the expiration of the option's term. The exercise price of each option may not be less than the fair market value of a share of the Company's common stock on the date of grant (except in connection with the assumption or substitution for another option in a manner qualifying under Section 424(a) of the Internal Revenue Code of 1986, as amended (the Code). Incentive stock options granted to any participant who owns 10% or more of the Company's outstanding common stock (a Ten Percent Shareholder) must have an exercise price equal to or exceeding 110% of the fair market value of a share of our common stock on the date of the grant and must not be exercisable for longer than five years. Options become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The maximum term of any option granted under the 2011 Plan is ten years, provided that an incentive stock option granted to a ten percent shareholder must have a term not exceeding five years.

PERFORMANCE AWARDS

Under the 2011 Plan, a participant may also be awarded a "performance award," which means that the participant may receive cash, stock or other awards contingent upon achieving performance goals established by the Committee. The Committee may also make "deferred share" awards, which entitle the participant to receive our stock in the future for services performed between the date of the award and the date the participant may receive the stock. The vesting of deferred share awards maybe based on performance criteria and/or continued service with our Company. A participant who is granted a "stock appreciation right" under the Plan has the right to receive all or a percentage of the fair market value of a share of stock on the date of exercise of the stock appreciation right minus the grant price of the stock appreciation right determined by the Committee (but in no event less than the fair market value of the stock on the date of grant). Finally, the Committee may make "restricted stock" awards under the 2011 Plan, which is subject to such terms and conditions as the Committee determines and as are set forth in the award agreement related to the restricted stock. As of September 30, 2012, 13,200 shares have been issued under this plan to non- officers employees.

NOTE 17 – SEGMENT AND GEOGRAPHIC AREAS

The Company has identified three global regions or segments for its products and services; North America, Europe, and Asia-Pacific. Our reportable segments are business units located in different global regions. Each business unit provides similar products and services; license fees for leasing and asset-based software, related maintenance fees, and implementation and IT consulting services. Separate management of each segment is required because each business unit is subject to different operational issues and strategies due to their particular regional location. We account for intra-company sales and expenses as if the sales or expenses were to third parties and eliminate them in the consolidation. The following table presents a summary of operating information and certain balance sheet information for the three months ended September 30:

	2012	2011
Revenues from unaffiliated customers:		
North America	$1,713,190	$909,069
Europe	1,506,001	916,619
Asia - Pacific	7,852,709	4,403,020
Consolidated	$11,071,900	$6,228,708
Operating income (loss):		
Corporate headquarters	$(900,725)	$(905,143)
North America	(233,685)	28,714
Europe	(23,805)	(128,395)
Asia - Pacific	2,660,161	178,382
Consolidated	$1,501,946	$(826,442)
Net income (loss) after taxes and before non-controlling interest:		
Corporate headquarters	$(1,503,819)	$(1,208,576)
North America	(233,936)	28,526
Europe	(34,970)	(58,419)
Asia - Pacific	3,034,129	(82,981)
Consolidated	$1,261,404	$(1,321,450)
Identifiable assets:		
Corporate headquarters	$14,163,394	$14,310,339
North America	3,242,885	1,856,622
Europe	5,989,190	4,184,885
Asia - Pacific	73,165,459	60,877,049
Consolidated	$96,560,928	$81,228,895
Depreciation and amortization:		
Corporate headquarters	$33,889	$17,705
North America	159,901	75,434
Europe	226,983	121,448
Asia - Pacific	879,379	766,191
Consolidated	$1,300,152	$980,778
Capital expenditures:		
Corporate headquarters	$720	$-
North America	36,646	1,444
Europe	13,370	-

Asia - Pacific	1,406,398	1,426,440
Consolidated	$1,457,134	$1,427,884

Net revenues by our various products and services provided for the period ended September 30, are as follows:

	2012	2011
Licensing Fees	$3,241,501	$1,075,850
Maintenance Fees	2,045,706	2,037,206
Services	5,784,693	3,115,652
Total	$11,071,900	$6,228,708

NOTE 18 – NON-CONTROLLING INTEREST IN SUBSIDIARY

The Company had non-controlling interests in several of its subsidiaries. The balance of non-controlling interest was as follows:

SUBSIDIARY	Non Controlling Interest %	Non-Controlling Interest at September 30, 2012
NetSol PK	39.48 %	$ 13,598,682
NetSol-Innovation	49.90 %	1,192,487
VLS	49.00 %	707,975
Total		$ 15,499,144

SUBSIDIARY	Non Controlling Interest %	Non-Controlling Interest at June 30, 2012
NetSol PK	39.48 %	$ 13,600,492
NetSol-Innovation	49.90 %	1,076,833
VLS	49.00 %	722,096
Total		$ 15,399,421

(A) NETSOL TECHNOLOGIES, LIMITED

For the three months ended September 30, 2012 and 2011, NetSol PK had net income of $606,090 and net loss of $(99,918). The related non-controlling interest was $239,284 and $(39,448), respectively.

(B) NETSOL INNOVATION (PRIVATE) LIMITED

For the three months ended September 30, 2012 and 2011, NetSol Innovation had net income of $256,535 and $354,119. The related non-controlling interest was $128,011 and $176,705, respectively.

(C) VIRTUAL LEASE SERVICES

For the period ended September 30, 2012, VLS had a net loss of $(64,620). The related 49% non-controlling interest was $31,664.

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NOTE 19 – INCOME TAXES

Our effective tax rates were approximately 1.10% and 1.89% for the three months ended September 30, 2012 and 2011, respectively. Our effective tax rate was lower than the U.S. federal statutory rate due to the fact that our operations are carried out in foreign jurisdictions, which are subject to lower income tax rates. Also, the Company has established a full valuation allowance as management believes it is more likely than not that these assets will not be realized in the future.

NOTE 20 - SUBSEQUENT EVENTS

20,284 shares were issued to one of the holder of convertible note against conversion of $100,000 of principal value.

Employees of the Company exercised options to acquire 30,000 shares of common stock valued at $142,500.

Item 2. Management's Discussion and Analysis Or Plan Of Operation

The following discussion is intended to assist in an understanding of the Company's financial position and results of operations for the quarter ending September 30, 2012.

Forward-Looking Information

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

NetSol Technologies, Inc. (NasdaqCM: NTWK) (NasdaqDubai: NTWK) is a worldwide provider of IT and enterprise application solutions, NetSol Technologies, Inc. executes its mission of focusing technology on the operational needs of its clients. NetSol's services and solutions enable businesses to streamline their operations and compete more effectively.

The Company is organized into two main revenue areas, consisting of enterprise solutions – NetSol Financial Suite (NFS™) – for the global financing, leasing and lending industry, and a portfolio of managed services, including customized application development, systems integration, and business process engineering. In addition, NetSol's solutions portfolio includes smartOCI® its e-Procurement search engine for SAP SRM users.

NetSol's clients include Dow-Jones 30 Industrials and Fortune 500 manufacturers and financial institutions, global vehicle manufacturers, and enterprise technology providers, all of which are serviced by NetSol delivery locations across the globe.

Founded in 1997, NetSol is headquartered in Calabasas, California. While the Company follows a global strategy for sales and delivery of its portfolio of solutions and services, it continues to maintain regional offices in the San Francisco Bay Area, for North America; the London Metropolitan area for Europe; and Bangkok, Thailand, Beijing, China and Lahore, Pakistan for Asia Pacific. The Company continues to maintain services, solutions and/or sales specific offices in Australia, China, Thailand, and Pakistan and through alliances in the Kingdom of Saudi Arabia and Japan.

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

NetSol combines domain expertise with competitive cost blended rates from its “center of excellence” delivery center in Pakistan and other global centers located in the USA, UK, Thailand and China, Our model also provides localized programs in key markets and project management while minimizing any implementation risk associated with a single service center. Our BestShoring® approach, which we consider a unique and cost effective global development model, is leading the way, providing value added solutions for Global Business Services™ through a win-win partnership, rather than the traditional outsourced vendor framework. Our global locations provides NetSol customers with the optimum balance of subject matter expertise, in-depth domain experience, and cost effective labor, all merged into a scalable solution. In this way, “BestShoring® delivers BestSolution™”.

Information technology services are valuable only if they fulfill the business strategy and project objectives set forth by the customer. NetSol’s expert consultants have the technical knowledge and business experience to ensure the optimization of the development process in alignment with basic business principles. The Company offers a broad array of professional services to clients in the global commercial markets and specializes in the application of advanced and complex IT enterprise solutions to achieve its customers' strategic objectives. Its service offerings include IT consulting & services; business intelligence, information security, independent system review, outsourcing services and software process improvement consulting; maintenance and support of existing systems; and, project management.

In addition to services, our product offerings are fashioned to provide a Best Product for Best Solution model. Our offerings include our flagship global solution, NetSol Financial Suite (NFS™). NFS™, a robust suite of five 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 five software applications under NFS™ 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. NFS™ is a result of more than eight years of effort resulting in over 60 modules grouped in five comprehensive applications. When used together, they fully automate the entire leasing / financing cycle.

NFS™ also includes LeasePak. LeasePak provides the leasing technology industry with the development of Web-enabled and Web-based tools to deliver superior customer service, reduce operating costs, streamline the lease management lifecycle, and support collaboration with origination channel and asset partners. LeasePak can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. In terms of scalability, NetSol Technologies North America offers the basic solutions as well as a collection of highly specialized add on modules for systems, portfolios and accrual methods for virtually all sizes and complexities of operations. 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 North America, Inc. has recently launched its Infrastructure as a Service (IaaS) business line. In its updated public cloud forecast in June 2012, Gartner estimated that IaaS was the fastest growing cloud segment. NetSol’s IaaS offering will differentiate itself from the competition by providing much enhanced performance at a lower cost point. At an elastic cloud price, management believes these customers will experience performance, reliability and speed usually associated with a highly scalable private cloud.

Our product offerings and services also include: LeaseSoft Portals and Modules through our European operations; LeasePak 6.0b of our NFS™ product suite; enterprise wide information systems, such as or LRMIS, MTMIS, business intelligence and information security services.

NetSol’s IP, smartOCI®, now part of Vroozi, Inc., a wholly owned subsidiary of NTI, develops innovative e-commerce solutions for all business sizes and industry verticals which help companies search, source, negotiate, and order goods and services from suppliers electronically optimizing organization’s procurement and supply chain operations. Vroozi’s business to business search engine, collaborative commerce, and electronic marketplace applications are deployed On Demand and can integrate seamlessly with major ERP vendor systems such as SAP or deployed independently on the Internet.

Vroozi’s first product to market is smartOCI®; a new search engine technology and buy-side content marketplace provider which enables corporate buyers and shoppers a simple and intuitive user interface to search multiple supplier catalogs simultaneously within the SAP procurement application. The smartOCI® technology was officially released to the market in 2011 at the SAP SAPPHIRE Conference in Orlando, Florida, and has strengthened NetSol’s presence in the global SAP Services market.

NetSol global operation is broken down into three regions: North America, Europe and Asia Pacific. All of the subsidiaries are seamlessly integrated to function effectively in terms of global delivery capabilities, cross selling to multinational captives’ finance companies, centralized marketing organization and a network of employees connected across the globe to support local and global customers and partners.

The following discussion is intended to assist in an understanding of NetSol’s financial position and results of operations for the quarter ended September 30, 2012. It should be read together with our consolidated financial statements and related notes included herein.

A few of NetSol's major successes achieved in 2011-2012 were:

- NetSol Technologies Pakistan signed multi-million dollar agreements to implement NFS™ solution, for a major European Bank in China and, an automobile manufacturer in Thailand.
- NetSol Technologies (Beijing) Co. Limited signed an agreement to license and implement NFS™ solution with Chongqing Auto Finance Co., Ltd.
    - NTPK Thailand signed a consultancy and services agreement for a premier auto manufacturer in Thailand.

- First NextGen – NFS™ went live with Thailand’s Kiatnakin, a leading Bank, and a leading provider of financial services to commercial and corporate sectors in Thailand.
- NTPK Thailand and NEC India signed a partnership agreement to jointly develop and support business in the asset finance and leasing industry in India, as well as other markets in the Asia Pacific region.
- NetSol Technologies and ABeam Consulting Ltd. entered into a strategic partnership agreement to jointly develop and support business in the asset finance and leasing industry in Japan, as well as cooperating in other key markets to serve Japanese corporations operating throughout the Asia Pacific region.
- Atheeb NetSol, the Saudi Arabia joint venture of NetSol Technologies, Inc., signed four new agreements in the areas of cyber security, application development and consulting.
- NTNA signed an enhancement project for an auto finance captive subsidiary of a leading auto manufacturer.
- Vroozi, Inc. signed a large SRM 7.0 project implementation with long term care service provider in the United States.
- Vroozi, Inc. developed a ‘Big Data’ loader for the smartOCI® Catalog Manager which allows large supplier catalog files to be loaded via a secure web connection.
- Vroozi, Inc., has signed an agreement with a top U.S. media company to implement a full B2B e-commerce search engine suite, including the smartOCI® Search Engine, Catalog Manager and Supplier Marketplace.
- A leading U.S. chipmaker has signed an agreement to implement smartOCI® search engine in its SAP e-Procurement environment.
- NTE jointly acquired United Kingdom-based Virtual Lease Services, Ltd. (“VLS”), together with Investec Asset Finance Plc.
- Signed a multi-million dollar agreement to implement the NFS™ solution, including its retail platforms, to a European Automobile manufacturer for its Malaysian operations.
- Won a major contract in the area of ‘Information Security’ with a leading Telecom in Pakistan.
- NetSol Technologies signed a significant contract to implement its NFSTM solution for a major European automobile manufacturer.
- Signed a multi-million dollar contract with a major heavy machinery manufacturer to implement its core NetSol Financial Suite solution in Thailand.

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) adequately capitalize for growth in various markets and verticals; (c) make progress in the North American markets and, (d) continue to streamline sales and marketing efforts in every market we operate. However, management's outlook for the continuing operations, which has been consolidated and has been streamlined, remains optimistic.

Marketing and Business Development Activities

Management has developed, and the board of directors has ratified, an aggressive 3-5 year growth strategy aimed at increasing competitiveness and financial strength.

This plan is designed to:

Achieve 15-25% annual revenue growth for the next 5 years

Achieve 55-60% gross margins in 2013 and average 65% for next three years.

Result in enhanced organic growth

Build a strong new ecommerce vertical under Vroozi platform

Continue to enhance delivery and service capabilities in Pakistan ,China, Thailand, USA and UK.

Strengthen NetSol brand and market shares in APAC markets

Consistently hire the best available talent to develop the next line of managers for our growing demand

The plan contemplates the following enhanced activities and initiatives will accomplish these goals:

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- o Continued expansion in the Chinese market which offers ever growing new opportunities in the auto, banking and lending sectors for NFS™.

- o NetSol is positioning China to become a dominant market for lending enterprise solutions for captive multinationals and local Chinese companies, including equipment finance, big ticket leasing markets and the banking industry. In the lease and finance domain NetSol can claim the de facto leadership position in the rapidly growing Chinese market.

- o Further augmentation of NTPK Thailand. The office space in Bangkok has been enhanced with new hires of local and international staff to address and support a very rapidly growing market. The pipeline of new customers is growing from the markets in Japan, South Korea, Australia, India and other regional markets. These markets will be serviced and supported from the Thailand office with strong sales and client support team. The Bangkok facility is intended to become an alternate delivery and implementation center for global customers and partners in Asia Pacific.

- o The new and fast growing manifestations of e-commerce, such as cloud computing, are being utilized by some of our offerings and will be further explored by us for other offerings. Our e-commerce division's smartOCI® has been demonstrated and presented to major fortune 500 companies in the US as an on-demand, catalogue content management system. The demand of e-procurement search engine seems robust and attractive. Continued new license sales activities are in the pipeline for Vroozi, Inc. Presently smartOCI® is the main asset in this entity while we explore other channels of growth in e-commerce and search engine space. There has been a surge of interest amongst fortune 500 corporations for demos and workshops for smartOCI® in recent months. To date, ten new US based major corporations have been signed up for smartOCI®.

- o Europe continues to experience a severe recession coupled with regional debt crises. NetSol Europe's operations have maintained modest growth in sales while the Company has further rationalized overall operating overheads. Despite the sluggish economy in Europe, our relationship with existing clientele is very strong and we expect to generate new revenues from these customers in this fiscal year. The integration of VLS in conjunction with Investec Bank as a JV partner should bolster growth in services sectors complementing core solutions and augmenting overall market share in the UK.

- o The market of the Kingdom of Saudi Arabia is robust, rich and well capitalized, offering vast opportunities for NetSol through our joint venture. Recently, there have been a few new local IT contracts awarded but our vision is based on long term and high value projects in the defense, public, infrastructure and multinational auto captive markets. In order to be equal partners with a major conglomerate, Atheeb Group, a $2 billion group in revenue, we need to have the serious financial wherewithal and resources to bid on major projects exceeding $100 million each in value. Currently, the joint venture has 10 employees based in Riyadh with direct delivery and implementation support from NetSol PK. Recently ANSCL has signed four new contracts both in defense and private sector to provide IT services and consulting in the key areas that are valued to over $2.0MN. This is just a beginning as we see very exciting new developments as we close new contracts.

- o Our NFS™ suite of products is currently undergoing a major initiative towards developing the next generation of solutions. The Company believes that this would change the landscape for NetSol and increase both demand and the market. We are in the middle of developing a comprehensive sales and marketing plan requiring new personnel, markets and investment. However, the demand for current NFS has been very robust with some global clients and many new fortune 500 captive finance companies in China, Thailand and Japan.

- o In order to maximize the market and product potential of our SAP and Ecommerce line, highlighted by our smartOCI® product, we spun this line off into its own operational entity. We believe this will better enhance product and market development by providing a dedicated management and fulfillment staff.

Growth – New Alliances, Mergers & Acquisition

- The markets in the US and UK offer a host of complementary companies with impressive client bases to expand the distribution channels for NFS™ and its new generation product line. There are established small sized Companies, with relatively low valuations, which can become part of NetSol on an affordable basis. It is important to seek out these companies in order to grow our customer base, revenue and net margins by leveraging our delivery and implementation model.

Funding and Investor Relations:

The fundamental challenge constantly facing the management is to achieve sustainable growth with a healthy balance sheet, without too much dilution. In light of global opportunities for organic growth and through alliances and mergers and acquisitions, the Company raised cash through a public offering of shares of common stock in 2012. We are using this cash infusion to support sales and marketing, Vroozi, infrastructure, and operations and capital investment in the Chinese subsidiary, NetSol Beijing. Going forward any new capital raise would depend on new opportunities to accelerate growth organically and/or through M&A.

We are using proceeds from the last offering of shares to the public on:

- Expansion in China, Thailand and other emerging markets.
- Expanding the North American operation to roll out NetSol new generation solutions and enter Cloud Computing Solutions including building Vroozi.
- Build Vroozi as a winning name in the E-Commerce space.
- Support larger IT related public and defense sectors projects in the Kingdom of Saudi Arabia with our joint venture partner.
- Capital Expenditures for our next generation products, technology and infrastructure.
- Hiring and training of programmers, engineers, sales and marketing to create a bigger bench for technical team to cater to bigger volume new contracts.

Investor Relations efforts will include:

- Working to grow our institutional investor base.
- Sharing the NetSol story with sell side analysts, funds, portfolio managers and the financial media.
- Aggressively positioning NetSol in front of major investors' conferences and road shows to be organized by our IR consultants and investment bankers.
- Utilizing US mainstream media to highlight NetSol's image and 'niche' business offering.
- Founding management continued investment in the Company in the open market reaffirming their commitment to the potential and the future of the Company.

Improving the Bottom Line:

Management believes that these measures will improve the bottom line on an ongoing basis:

- Improve pricing, sales volume and fee structures.
- Continue consolidation and reevaluating operating margins as ongoing activities.
- Streamline further cost of goods sold to improve gross margins to historical levels over 60%, as sales ramp up.

- Generate higher revenues per employee, enhance productivity and lower cost per employee.

- Optimize the utilization of NetSol's best talent and resources, infrastructure, processes and disciplines to maximize the bottom-line and fully leverage the cost arbitrage.

- Grow process automation and leverage the best practices of CMMI level 5. Global delivery concept and integration will further improve both gross and net margins.

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

- Create more visibility and predictability by implementing SaaS model in mature markets. Retire Debt to reduce the interest cost significantly and to make every effort to avoid any one time charges.

Management continues to be focused on scaling up 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. CMMI level companies are reassessed every three years by independent consultants under the standards of the Carnegie Mellon University to maintain its CMMI Level 5 quality certification. As required, NetSol was reassessed in 2010 and was successfully recertified as CMMI Level 5. We believe that the CMMI standards are a key reason in NetSol's demand surge worldwide. We remain convinced that this trend will continue for all NetSol offerings promoting further beneficial alliances and increasing the number and quality of our global customers.

MATERIAL TRENDS AFFECTING NETSOL

Management has identified the following material trends affecting NetSol.

Positive trends:

- The global economic uncertainty and consolidations have opened doors for low cost solution providers such as NetSol. The BestShoring® model of NetSol is a catalyst in today's environment.
- Global economic pressures and the recession have shifted users of IT processes and technology to utilize both offshore and onshore solutions providers, to control costs and improve ROIs.
- Serious interest in NetSol's next generation solution has been expressed by a few global companies. Demos and workshops with key global clients and partners of have been very well received. Hence, the new generation solution, while not completely ready, is gaining momentum.
- First successful implementation of NextGen – NFS™ solution with a Thai bank is a very positive indicator for new deals.
- China has become the world's second largest economy, continuing to grow by over 8% a year while growth in other industrial nations has declined or grown only marginally.
- China's automobile and banking sectors have been unaffected by the global meltdown and their recent automobile sales statistics have outperformed all other economies.
- Growing interest in Japan for IT services and NFS applications within banking, equipment finance and general leasing industries.
- As reported by the Associated Press, China surpassed the US as the number one automobile market in auto sales. JD Powers & Associates anticipated further strong growth in future auto sales. It is anticipated that this market opportunity will result in further penetration by NetSol into China's burgeoning leasing and finance market.
- E-Commerce, new technologies, innovations and online activities are gaining momentum in many verticals. New areas for diversification are opening for NetSol. The B2B market has never been stronger in the US market alone thereby offering a potentially huge opportunity to grow Vroozi offerings.
- Strong entry in e-commerce space by way of developing and marketing a new IP and winning series of fortune 500 US customers.
- The surviving IT companies, such as NetSol, with price advantage and a global presence, will gain further momentum as economic indicators turn positive. The bigger customers and targeted verticals are much more cost

conscious and are seeking a better rate of return on investments in IT services. NetSol has an edge due to its BestShoring® model and proven track record of delivery and implementations worldwide.

- The Kingdom of Saudi Arabia is investing billions in healthcare, education, defense, cyberspace securities, IT, infrastructure and many other new sectors. This makes it one of the most promising markets for the Atheeb NetSol joint venture.

- The dependency of our blue chip clients on NetSol solutions has further deepened; creating new enhancements, new modules, and services orders in the US.

- Improved outlook and earnings of bellwether technology companies in USA, reflecting the turnaround of this sector after recession.

- Global opportunities requiring NetSol to diversify its delivery capabilities to Bangkok and such other new emerging economies that offer geopolitical stability and low cost IT resources, thereby reducing dependency upon the Lahore technology campus.

- Our global multi-national clients have continued to pursue deeper relationships in newer regions and countries. This reflects our customers' dependencies and satisfaction with our NetSol Financial Suite of products.

- 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 4 more years remaining on this tax incentive.

Negative trends:

- Geopolitical unrest due to extremism in the regions of Pakistan and Afghanistan.

- Continued strains in US-Pakistan relations.

- The emergence of many smaller players offering IT solutions in China has resulted in greater price competition.

- The fear of renewed recession in the US and, a continued sluggish European market could adversely affect our business in North America and Europe. Tightened liquidity and credit restrictions in consumer spending has either delayed or reduced spending on business solutions and systems, squeezing IT budgets and extending decision making cycles. Restricted liquidity and financial burden due to tighter internal processes and limited budgets might cause delays in the receivables from some clients. Anticipated worsening US deficit and a rise in inflation in coming years would put further stress on consumers and business spending.

- Volatility in oil prices, the Euro zone in European markets and uncertainty overall in global economies could deter the growth and GDP in the US.

- Unrest and growing war in Afghanistan could increase the migration of both refugees and extremists to Pakistan, thus creating domestic and regional challenges.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for us include revenue recognition and multiple element arrangements, intangible assets, software development costs, and goodwill.

REVENUE RECOGNTION

The Company recognizes revenue from license contracts without major customization when a non-cancelable, non-contingent license agreement has been signed, delivery of the software has occurred, the fee is fixed or determinable, and collectability is probable. Revenue from the sale of licenses with major customization, modification, and development is recognized on a percentage of completion method. Revenue from the implementation of software is recognized on a percentage of completion method.

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

MULTIPLE ELEMENT ARRANGEMENTS

We may enter into multiple element revenue arrangements in which a customer may purchase a number of different combinations of software licenses, consulting services, maintenance and support, as well as training and development (multiple element arrangements).

VSOE of fair value for each element is based on the price for which the element is sold separately. We determine the VSOE of fair value of each element based on historical evidence of our stand-alone sales of these elements to third-parties or from the stated renewal rate for the elements contained in the initial software license arrangement. When VSOE of fair value does not exist for any undelivered element, revenue is deferred until the earlier of the point at which such VSOE of fair value exists or until all elements of the arrangement have been delivered. The only exception to this guidance is when the only undelivered element is maintenance and support or other services, then, the entire arrangement fee is recognized ratably over the performance period.

INTANGIBLE ASSETS

Intangible assets consist of product licenses, renewals, enhancements, copyrights, trademarks, trade names, and customer lists. Intangible assets with finite lives are amortized over the estimated useful life and are evaluated for impairment at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess recoverability by determining whether the carrying value of such assets will be recovered through the undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of these assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

SOFTWARE DEVELOPMENT COSTS

Costs incurred to internally develop computer software products or to enhance an existing product are recorded as research and development costs and expensed when incurred until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers.

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

STOCK-BASED COMPENSATION

Our stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including expected volatility and expected term. If any of the assumptions used in the BSM model changes significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience and our expectations regarding future pre-vesting termination behavior of employees. To the extent our actual forfeiture rate is different from our estimate; stock-based compensation expense is adjusted accordingly.

RECENT ACCOUNTING PRONOUNCEMENTES

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 3 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

GOODWILL

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase businesses combination. Goodwill is reviewed for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

CASH RESOURCES

The company had $8.02–– million worldwide in cash as on September 30, 2012.

AVAILABLE INFORMATION

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

Our website is located at www.netsoltech.com, and our investor relations website is located at http://www.netsoltech.com/IR/. The following filings are available through our investor relations website after we file with the SEC: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements for our annual meetings of stockholders. These filings are also available for download free of charge on our investor relations website. We also provide a link to the section of the SEC's website at www.sec.gov that has all of our public filings, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, our Proxy Statements and other ownership related filings. Further, a copy of this Quarterly Report on Form 10-Q is located at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website by signing up for e-mail alerts. Further corporate governance information, including our committee charters and code of conduct, is also available on our investor relations website at http://www.netsoltech.com/us/investors/corporate-governance . The content of our websites are not intended to be incorporated by reference into this 10-Q or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

CHANGES IN FINANCIAL CONDITION

QuarterEnded September 30, 2012 as compared to the Quarter Ended September 30, 2011

Net revenues for the quarter ended September 30, 2012 and 2011 are broken out among the subsidiaries as follows:

	2012 Revenue	%		2011 Revenue	%	
Corporate headquarters	$ -	0.00	%	$ -	0.00	%
North America:						
NTNA	1,279,721	11.56	%	909,069	14.59	%
Vroozi	433,469	3.92	%	-		
	1,713,190	15.47	%	909,069	14.59	%
Europe:						
NTE	1,117,915	10.10	%	916,618	14.72	%
VLS	388,086	3.51	%	-	0.00	%
	1,506,001	13.60	%	916,618	14.72	%
Asia-Pacific:						
NetSol PK	3,793,002	34.26	%	3,184,046	51.12	%
NetSol-Innovation	804,509	7.27	%	902,195	14.48	%
Connect	169,243	1.53	%	149,795	2.40	%
Abraxas	751,889	6.79	%	68,782	1.10	%
NTPK Thailand	2,334,066	21.08	%	98,202	1.58	%
	7,852,709	70.92	%	4,403,020	70.69	%
Total	$ 11,071,900	100.00	%	$ 6,228,708	100.00	%

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The following table sets forth the items in our unaudited consolidated statement of operations for the three months ended September 30, 2012 and 2011 as a percentage of revenues.

	For the Three Months Ended September 30,			
	2012	%	2011	%
Net Revenues:				
License fees	$3,241,501	29.28 %	$1,075,850	17.27 %
Maintenance fees	2,045,706	18.48 %	2,037,206	32.71 %
Services	5,784,693	52.25 %	3,115,652	50.02 %
Total net revenues	11,071,900		6,228,708	100.00 %
Cost of revenues:				
Salaries and consultants	3,385,668	30.58 %	2,383,411	38.26 %
Travel	325,294	2.94 %	285,673	4.59 %
Repairs and maintenance	127,997	1.16 %	74,194	1.19 %
Insurance	37,719	0.34 %	35,868	0.58 %
Depreciation and amortization	958,151	8.65 %	789,105	12.67 %
Other	921,858	8.33 %	516,409	8.29 %
Total cost of revenues	5,756,687	51.99 %	4,084,660	65.58 %
Gross profit	5,315,213	48.01 %	2,144,048	34.42 %
Operating expenses:				
Selling and marketing	762,963	6.89 %	700,281	11.24 %
Depreciation and amortization	342,001	3.09 %	191,674	3.08 %
Salaries and wages	1,153,873	10.42 %	806,564	12.95 %
Professional services, including non-cash compensation	206,502	1.87 %	186,749	3.00 %
General and adminstrative	1,347,928	12.17 %	1,085,222	17.42 %
Total operating expenses	3,813,267	34.44 %	2,970,490	47.69 %
Income (loss) from operations	1,501,946	13.57 %	(826,442)	-13.27 %
Other income and (expenses)				
Gain (loss) on sale of assets	14,296	0.13 %	(1,641)	-0.03 %
Interest expense	(292,389)	-2.64 %	(251,430)	-4.04 %
Interest income	24,167	0.22 %	32,805	0.53 %
Gain on foreign currency exchange transactions	395,156	3.57 %	(120,906)	-1.94 %
Share of net loss from equity investment	-	0.00 %	(100,000)	-1.61 %
Beneficial conversion feature	(367,744)	-3.32 %	(21,583)	-0.35 %
Other (expense)	(32)	0.00 %	(7,719)	-0.12 %
Total other (expenses)	(226,546)	-2.05 %	(470,474)	-7.55 %
Net income (loss) before income taxes	1,275,399	11.52 %	(1,296,916)	-20.82 %
Income taxes	(13,996)	-0.13 %	(24,534)	-0.39 %
Net income (loss) after tax	1,261,403	11.39 %	(1,321,450)	-21.22 %
Non-controlling interest	(332,279)	-3.00 %	(137,258)	-2.20 %
Net income (loss) attibutable to NetSol	929,124	8.39 %	(1,458,708)	-23.42 %

Net revenues for the quarter ended September 30, 2012 were $11,071,900 as compared to $6,228,708 for the quarter ended September 30, 2011. This reflects a significant increase of $4,843,192 or 77.76% in the current quarter as compared to the quarter ended September 30, 2011. Year over year, revenue from license income was increased by $2,165,651 mainly due to signing of new deals of the core NetSol Financial SuiteTM. The comparative quarter was one of our most sluggish quarters as certain deals were delayed. Services revenue, which also includes consulting and implementation, increased to $5,784,693, as compared to $3,115,652 last year. This is an increase by 85.67%. The increase in services revenue is due to implementation of our product at new customers' sites and ongoing requests for customization and enhancement from our existing customers. Our maintenance fees slightly increased by $8,500.00, which was $2,045,706 in the current quarter, as compared to $2,037,206 in the comparable period. As we manage to sell more licenses, this fee is expected to increase in the future.

The gross profit was $5,315,213 in the quarter ending September 30, 2012 as compared with $2,144,048 for the same quarter of the previous year. This is an increase of 147.91% or $3,171,165. The gross profit percentage for the quarter also increased to 48.01% from 34.42% in the quarter ended September 30, 2011, mainly due to increase in license and services revenue. The cost of sales was $5,756,687 in the current quarter compared to $4,084,660 in the comparable quarter of fiscal 2011. As a percentage of sales it decreased from 65.58% for the quarter ended September 30, 2011 to 52% in the current quarter. Salaries and consultant fees increased by $1,002,257; from $2,383,411, in the prior comparable quarter, to $3,385,668. As a percentage of sales, it decreased from 38.26% in the prior comparable quarter to 30.58% in the current quarter. The increase in salaries is due to the annual pay raise and hiring of new employees at key locations including North America, China and Thailand. Depreciation and amortization expense increased to $958,151 compared to $789,105 in the corresponding quarter last year or an increase of $169,046.

Operating expenses were $3,813,267 for the quarter ending September 30, 2012 as compared to $2,970,490, for the corresponding period last year or an increase of 28.37% or $842,777. As a percentage of sales, it decreased from 47.69% to 34.44%. The main reason of this variation is the consolidation of expenses of another subsidiary (VLS) which was not in the corresponding period. Depreciation and amortization expense amounted to $342,001 and $191,674 for the quarter ended September 30, 2012 and 2011, respectively. Combined salaries and wage costs were $1,153,873 and $806,564 for the comparable periods, respectively. As a percentage of sales, these costs decreased from 12.95% to 10.42%. General and administrative expenses were $1,347,928 and $1,085,222 for the quarters ended September 30, 2012 and 2011, respectively, an increase of $262,706 or 24.21%. As a percentage of sales, these expenses were 12.17% in the current quarter compared to 17.42% in the comparable quarter.

Selling and marketing expenses were $762,963 and $700,281, in the quarter ended September 30, 2012 and 2011, respectively. The Company is marketing its products in different geographies of the world and has hired more professional resources for the business development. Also the aggressive marketing of smartOCI® and other Vroozi products in North America and Europe has resulted in increase in sales and marketing expenses. Professional services expense increased 10.58% to $206,502 in the quarter ended September 30, 2012, from $186,749 in the corresponding period last year.

Income from operations was $1,501,946, compared to loss of $826,442, for the quarters ended September 30, 2012 and 2011, respectively. This represents an increase of $2,328,388 for the quarter compared with the comparable period in the prior year. As a percentage of sales, net income from operations was 13.57% in the current quarter compared to a net loss of 13.27% in the prior period.

Net income was $929,124, compared to a net loss of $1,458,708, for the quarters ended September 30, 2012 and 2011, respectively. This is an increase of $2,387,832 compared to the prior year. Included in this income is foreign currency exchange gain of $395,156 compared to an exchange loss of $120,906 in the same reporting period last year, mainly due to appreciation of the USD, Euro and Pound in the current quarter against the Pakistan Rupee. The current fiscal quarter amount includes a net reduction of $332,279, compared to $137,258 in the prior period, for the 49.9% non-controlling interest in NetSol Innovation owned by other parties, the 39.48% non-controlling interest in NetSol PK and 49% non-controlling interest in VLS. Interest expense was $292,389 in the current quarter as compared to $251,430 in the comparable period. Net income per share, basic and diluted, was $0.12 as compared to net loss per share $0.26 for the quarters ended September 30, 2012 and 2011 respectively.

The net EBITDA income was $2,511,495 compared to a loss of $234,770 for the quarters ended September 30, 2012 and 2011, after amortization and depreciation charges of $1,300,152 and $980,779, income taxes of $13,996 and $24,534, interest expense of $292,389 and $251,430, and interest income of $24,167 and $32,805 respectively. The EBITDA earning per share, basic and diluted was $0.33 for the quarter ended September 30, 2012 as compared to a loss per share of $0.04 for the quarter ended September 30, 2011. As a percentage of revenues EBITDA was 22.68% compared to (3.77%) for the quarters ended September 30, 2012 and 2011, respectively. 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.

LIQUIDITY AND CAPITAL RESOURCES

We note that the Company's cash position was $8,019,788 at September 30, 2012, compared to $3,123,686 at September 30, 2011.

Net cash provided by operating activities amounted to $2,898,831 for the three months ended September 30, 2012, as compared to $883,900 for the comparable period last fiscal year. The increase is mainly due to increase in net profits of the Company. The average collection cycle for accounts receivables ranges between three to six months from the date of invoicing. The average days sales outstanding, for the period ended September 30, 2012, was 150 days as compared with 205 days in same period of fiscal 2012.

Net cash used by investing activities amounted to $2,488,599 for the three months ended September 30, 2012, as compared to $3,293,974 for the comparable period last fiscal year. The Company had net purchases of property and equipment of $1,457,134 compared to $1,427,884 for the comparable period last fiscal year. The increase in intangible assets which represents amounts capitalized for the development of new products was $1,091,966 and $1,768,681 for the comparable periods.

Net cash provided by financing activities amounted to $171,628 and $1,410,133 for the three months ended September 31, 2012, and 2011, respectively. The three months ended September 30, 2012 included the cash inflow of $252,900 from the exercising of stock options and warrants compared to $140,000 in the three months ended September 30, 2011. In the current fiscal period, the Company had net payments on account of bank loans, loans and capital leases of $1,160,684 as compared to $4,885,224 in the comparable period last year. The Company is operating in varying geographical regions of the world through its various subsidiaries. Those subsidiaries have financial arrangements from various financial institutions to meet both their short and long term funding requirements. These loans will become due at different maturity dates the detail of which is given in Note No. 12 of the annexed financial statements. The company and all its subsidiaries are in compliance with the covenants of the financial arrangements and there is no default, whatsoever, which may lead to early payment of these obligations. The Company anticipates to pay back all these obligations on their respective due dates from its own sources.

We remain open to strategic relationships that would provide value added benefits. The focus will remain on continuously improving cash reserves internally and reduced reliance on external capital raise.

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 anticipate needing working capital of $5.0 to $7.0 million for US, European and UAE, new business development activities and infrastructure enhancements.

While there is no guarantee that any of these methods will result in raising sufficient funds to meet our capital needs or that even if available will be on terms acceptable to the Company, we will be very cautious and prudent about any new capital raise given the global market declines. However, the Company is very conscious of the dilutive effect and price pressures in raising equity-based capital.

Financial Covenants

Our UK based subsidiary, NetSol Technologies Europe Limited (NTE) has an approved overdraft facility of £300,000 which requires that the aggregate amount of invoiced trade debtors (net of provisions for bad and doubtful debts and excluding intra-group debtors) of NTE, not exceeding 90 days old, will not be less than an amount equal to 200% of the facility. NTE had been granted another credit facility of £1,000,000 for the acquisition VLS. This facility requires that NTE's adjusted tangible net worth would not be less than £600,000. For this purpose, adjusted tangible net worth means shareholders' funds less intangible assets plus non-redeemable preference shares. In addition, NTE's cash debt service coverage would not fall below 150% of the aggregate debt service cost. The Pakistani subsidiary, NetSol Technologies Limited (NTPK) has an approved facility for both export refinance and term finance from Askari Bank Limited amounting to Rupees 362.5 million ($3,793,428) which requires NTPK to maintain a long term debt equity ratio of 60:40 and the current ratio of 1:1.

As of the date of this report, the Company and all its subsidiaries are in compliance with the financial covenants associated with its borrowings. The maturity dates of the borrowings of respective subsidiaries may accelerate if they do not comply with these covenants. In case of any change in control in subsidiaries, they may have to repay their respective credit facilities.

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Report (September 30, 2012). Based upon that evaluation, the Chief Financial Officer and Chief Executive Officer concluded that our disclosure controls and procedures were not effective given the weakness of our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management has the responsibility to establish and maintain adequate internal controls over our financial reporting, as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Our internal controls are designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our external financial statements in accordance with generally accepted accounting principles (GAAP).

Due to inherent limitations of any internal control system, management acknowledges that there are limitations as to the effectiveness of internal controls over financial reporting and therefore recognize that only reasonable assurance can be gained from any internal control system. Accordingly, our internal control system may not detect or prevent material misstatements in our financial statements and projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, we have performed an assessment of the effectiveness of our internal controls over financial reporting as of September 30, 2012. This assessment was based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of our assessment, the Company has determined that as of September 30, 2012, there was a material weakness in the Company's internal control over financial reporting. Specifically, while in the performance of this assessment, management identified that its accounting staff do not have sufficient technical accounting knowledge relating to accounting for complex U.S. GAAP matters. Although our CFO is a Chartered Accountant (CA) in Pakistan neither he, nor our controllers, holds a Certified Public Accounting (CPA) license in the United States. While the CA certification is recognized in several key countries relative to the Company's operations, including Pakistan, the United Kingdom, and other British Commonwealth countries, the Company has determined that a deficiency exists with respect to required financial reporting expertise in the United States. Based on this evaluation, management concluded that our internal control over financial reporting was not effective as of September 30, 2012. Notwithstanding the existence of such material weakness in our internal controls over financial reporting, our management, including our Chief Executive Officer, believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Management is committed to remediating the material weakness as quickly as possible and we will continue to encourage our current accounting staff to both further their continuing education and to sit for the Certified Public Accountant exam in the United States. In recognition of immediate financial reporting needs, the Company intends to implement additional controls and procedures during the current fiscal year to continue to ensure timely and accurate financial reporting objectives. Such additional controls and procedures may include: The retention of a U.S. based CPA as Chief Financial Officer with U.S. GAAP experience and appropriate knowledge of internal controls over financial reporting, for purposes of appropriate oversight of the financial reporting process and continued training of the accounting staff; recruitment of additional personnel with relevant U.S. GAAP experience to enhance our financial reporting and internal control function; retention of the services of a consultant for advisory services with respect to SOX 404 compliance. Management has been actively seeking to retain a U.S. based CPA and will retain such an individual at such time as we find a satisfactory and qualified candidate.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first quarter of fiscal year 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In July 2012, the Company issued 1,250 shares of common stock to employees of the Company as compensation according to the terms of the Company's Equity Incentive Plan. The shares were issued based on an exemption from registration under Rule 4(6) of the Securities Act of 1933, as amended.

In July 2012, the Company issued 2,400 shares of common stock to its investor relation firm as part of the compensation due to the firm in exchange for services performed. The shares were issued based on an exemption from registration under Rule 4(6) of the Securities Act of 1933, as amended. The firm is an accredited investor with access to information regarding the Company by virtue of its position as investor relations advisor.

In July 2012, the Company issued 2,500 shares of common stock to non-director, officers of the Company. The shares were issued for services rendered through June 30, 2011 and were issued based on an exemption from registration under Rule 4(6) of the Securities Act of 1933, as amended. Each employee is an accredited investor with access to information regarding the Company by virtue of their position with the Company.

In July, 2012, option holders exercised a total of 44,922 options to purchase common stock pursuant to the terms of the Company's Equity Incentive Plans. In September, 2012, option holders exercised an additional 50,000 options to purchase common stock pursuant to the Company's Equity Incentive Plans.

In September, 2012, two accredited investors converted portions of the principals of their convertible notes into shares of common stock. The total converted was $1,050,000 principal value at a per share conversion price of $4.93 into 212,982 shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission Of Matters To A Vote Of Security Holders

The results of the vote of security holders for the meeting held on August 6, 2012 has been previously reported on current report Form 8-K.

Item 5. Other Information

On August 13, 2012, the Company affected a 1 for 10 reverse stock split.

Item 6. Exhibits

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO)

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO)

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

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

SIGNATURES

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

NETSOL TECHNOLOGIES, INC.

Date:	November 14, 2012	/s/ Najeeb Ghauri
		NAJEEB GHAURI Chief Executive Officer

Date:	November 14, 2012	/s/Boo-Ali Siddiqui
		BOO-ALI SIDDIQUI Principal Financial Officer and Chief Financial Officer Principal Accounting Officer