

NETSOL TECHNOLOGIES INC  
Form S-3/A  
March 02, 2007

**AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 2, 2007**

**REGISTRATION NO. 333-140248**

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**  
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**AMENDMENT NUMBER 1 TO**

**FORM S-3**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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**NETSOL TECHNOLOGIES, INC.**

(Name of small business issuer in its charter)

Nevada	2834	95-4627685
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification "SIC" Code Number)	(IRS Employer Identification Number)

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23901 Calabasas Road, Suite 2072  
Calabasas, CA 91302  
Phone: (818) 222-9195  
Fax: (818) 222-9197

(Address including the zip code & telephone number including area code, of  
registrant's principal executive office)

NAJEEB GHOURI  
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of agent for service)

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COPIES TO:

PATTI L. W. MCGLASSON  
GENERAL COUNSEL

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:  
As soon as practicable after the effective date of this Registration Statement.  
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## CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Number of Shares to be Registered(1) (2)	Proposed Maximum Offering Price Per Share(1) (2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Shares of Common Stock, \$.001 par value, issued as interest due under Convertible Note (3)	230,863	\$1.37	\$316,282.31	\$37.23

- (1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c).
- (2) Pursuant to Rule 416 under the Securities Act of 1933, as amended, there are also being registered such additional shares of common stock as may become issuable pursuant to anti-dilution provisions of the warrants and preferred stock.
- (3) The shares are shares of common stock issued in lieu of cash interest payment on the Convertible Notes due at the Exchange Date

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans check the following box.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.  -----

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.E. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.  -----

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND IS SUBJECT TO CHANGE OR AMENDMENT. THE SELLING STOCKHOLDERS MAY NOT SELL THE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

**SUBJECT TO COMPLETION, DATED MARCH 2, 2007**

**PROSPECTUS**

**230,863 SHARES OF COMMON STOCK**

**NETSOL TECHNOLOGIES, INC.**

The selling stockholders listed on page 10 of this prospectus are offering for resale up to 230,863 shares of our common stock, referred to as the "offered shares." All of the offered shares were issued as payment of interest, in lieu of cash with respect to securities issued in connection with the private placement of convertible notes with a principal value of \$5,500,000 (the "Convertible Notes"). On October 30, 2006 ("Exchange Date") the Convertible Notes were exchanged for shares of Series A 7% Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") which are in turn convertible into shares of our common stock ("Shares issued in the "Financing"). Shares issued in connection with the Financing are subject to distribution in accordance with a prospectus filed by the Company in connection with registration statement number 333-138103. Accordingly, shares offered for resale by the selling stockholders pursuant to this prospectus may be distributed concurrently with those offered for resale by the selling stockholders pursuant to the prospectus filed in connection with registration statement number 333-138103. The shares of common stock being offered for resale by the selling stockholders pursuant to this prospectus are shares of common stock issued in lieu of cash interest payment on the Convertible Notes due at the Exchange Date. In this prospectus, the terms "NetSol," "we," or "us" will each refer to NetSol Technologies, Inc.

We will not receive any proceeds from sales of the shares of common stock by the selling stockholders.

Our common stock is traded on the NASDAQ Capital Market under the symbol "NTWK". The closing price of our common stock on February 28, 2007 was \$1.67.

We will bear all expenses, other than selling commissions and fees, in connection with the registration and sale of the shares being offered by this prospectus.

**INVESTING IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 5**

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**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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March 2, 2007

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements under "Prospectus Summary," "Risk Factors," in this prospectus are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements. Such factors include, among other things, those listed under "Risk Factors" and elsewhere in this prospectus.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other "forward-looking" information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this prospectus could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance, or achievements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

## **PROSPECTUS SUMMARY**

The following summary contains basic information about NetSol and this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our securities. For a more complete understanding of the risks associated with investing in us, you should read the entire prospectus carefully, including the "Risk Factors" starting on page 5.

## **OUR COMPANY**

We are an end-to-end information technology ("IT") and business consulting services provider for the lease and finance, banking and financial services industries. Since it was founded in 1997, the Company has developed enterprise solutions that help clients use IT more efficiently in order to improve their operations and profitability and to achieve business results. Our focus has remained the lease and finance, banking and financial services industries. We operate on a global basis with locations in China, Europe, East Asia and the U.S. By utilizing our worldwide resources, we believe we have been able to deliver high quality, cost-effective IT products and IT services.

Our subsidiary, NetSol Technologies Ltd. ("NetSol PK") develops the majority of our software. NetSol PK was the first software company in Pakistan in 1998 to achieve the ISO 9001 accreditation and was again the first software company in Pakistan to obtain Carnegie Mellon's Software Engineering Institute ("SEI") Capable Maturity Model ("CMM") Level 4 assessment in 2004 and CMMi Level 5 now in 2006. As maintained by the SEI, maturity levels measure the maturity of a software company's methodology that in turn ensures enhanced product quality resulting in faster project turn-a-round and a shortened time to market.

During recent years, we have focused on developing software applications for the leasing and financial service industries. In late 2002, we launched a new suite of software products under the name LeaseSoft. The LeaseSoft suite is comprised of four major integrated asset based leasing/financing software applications. The suite, consisting of a Credit Application Creation System (LeaseSoft.CAC), a Credit Application Processing System (LeaseSoft.CAP), a Contract Activation & Management System (LeaseSoft.CAM) and a Wholesale Finance System (LeaseSoft.WFS),

whether used alone or together, provides the user with an opportunity to address specific sub-domains of the leasing/financing cycle from the credit approval process through the tracking of the finance contract and asset.

Our company is divided into three regions, North America, Europe and Asia Pacific. The North American region consists of operations of the company and of our subsidiary, McCue Systems, Inc. (“McCue”), and is headed by John McCue as President of the North America region. In June 2006, we acquired the shares of McCue. McCue has 35 years of experience in developing business solutions for the equipment and vehicle leasing industry as a provider of lease/loan portfolio management software for banks, leasing companies and manufacturers. Its flagship product, LeasePak, simplifies lease/loan administration and asset management by accurately tracking leases, loans and equipment from origination through end-of-term and disposition. The LeasePak brand is recognized in the US and Canadian marketplace and is configured to handle the unique tax and regulation requirements of North America. LeasePak is complementary to NetSol’s LeaseSoft offering and its geographic specificity complements LeaseSoft in regions in which LeaseSoft does not currently have coverage or domain support knowledge.

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Our Asia Pacific region is headed by Salim Ghauri as President of the region and consists of all of our Pakistani subsidiaries, NetSol Technologies, Ltd., Abraxas and our Beijing, China sales office. Our NetSol PK operation supports the worldwide customer base of the LeaseSoft suite of products and all other product offerings. NetSol is actively undertaking exercises for providing consultancy services for different software companies. The key aspects of these services would be CMMi introduction, gap analyses for ISO 9001:2000 compliant procedures, CMMi Level 2/3 pre-assessments, consultancies, evaluations and tracking/analyses of such improvements. There is a growing domestic business in Pakistan for the IT and IT enabled services, as stated above, and NetSol is strategically positioned to support a very stable and economically beneficial pipeline to win many more as well as major new projects in the public and private sectors. NetSol will continue to strengthen its position as a dominant IT solutions provider in this explosive growth market.

Our European region consists of our two wholly owned subsidiaries, NetSol Technologies, Ltd. and NetSol-CQ, Ltd. (formally CQ Systems Ltd.) In February 2005, NetSol acquired 100% of CQ Systems Ltd., ("CQ"), an IT products and service company based in the UK. As a result of this acquisition, NetSol has access to a broad European customer base using IT solutions complementary to NetSol's LeaseSoft product. NetSol plans to leverage CQ's knowledge base and strong presence in the Asset Finance market to launch LeaseSoft in the UK and continental Europe. CQ's strong sales and marketing capability would further help NetSol gain immediate recognition and positioning for the LeaseSoft suite of products. In November 2005, CQ was re-branded as NetSol-CQ and was launched into the UK market with new branding and logo. This was part of a global strategy to have consistency in our marketing collateral across the globe. All NetSol-CQ products have been re-branded as LeaseSoft and the Enterprise product would now be known as LeaseSoft Asset.

With the acquisition of Pearl Treasury System, whose product offering is now referred to as InBanking™, the Company expands its menu of software into the banking and other financial areas. The tremendous flexibility enabled by the comprehensive data model and multi-tier architectural design of InBanking™ has been fully recognized, identifying the potential to further develop InBanking™ beyond treasury and capital markets. Additionally, InBanking™ is modular and can therefore be implemented as best-of-breed solutions for, as an example, front-office trading, middle office credit or market risk, or back office settlement. InBanking™ can also be implemented to support all these areas, plus others, as a single fully integrated solution. The beta version of InBanking is now in the final stages of completion and NetSol is currently seeking a small number of banks and financial institutions to be pilot development partners for the beta version of InBanking™ to support their specific requirements.

We market our software products worldwide to companies primarily in the automobile finance, leasing and banking industries. Some of NetSol's customers include: DaimlerChrysler Services AG; DaimlerChrysler Asia Pacific - Singapore; Mercedes-Benz Finance - Japan; Yamaha Motors Finance - Australia; DaimlerChrysler Financial Services-Taiwan; Debis Portfolio Systems - UK; DaimlerChrysler Financial Services - Australia; DaimlerChrysler Leasing - Thailand; DaimlerChrysler Financial Services - South Korea; UMF Leasing Singapore; MCB Mauritius; Toyota Leasing Thailand; Toyota Motors Finance China; BMW Financial Services - China; Australian Motor Finance- Australia and, DaimlerChrysler Services New Zealand. In addition, NetSol provides offshore development and testing services to Innovation Group Plc UK and their blue chip global insurance giants like Allstate, Centent, etc. NetSol is also a strategic business partner for DaimlerChrysler (which consists of a group of many companies), which accounts for approximately 11% of our revenue. Toyota Motors (which consists of a group of many companies) accounts for approximately 12% of our revenues. No other individual client represents more than 10% of the revenue for the fiscal year ended June 30, 2006.

We were incorporated under the laws of the State of Nevada on March 18, 1997. Our principal executive offices are located at 23901 Calabasas Road, Suite 2072, Calabasas, California 91302. Our telephone phone number is (818) 222-9195 and our website address is <http://www.netsoltek.com>.



## THE FINANCING

On June 15, 2006, we entered into an agreement with 5 accredited investors whereby Netsol issued 5 convertible notes for an aggregate principal value of \$5,500,000. These notes bore interest at the rate of 12% per annum and were due in full one year from the issuance date or on June 15, 2007 (the "Financing"). Together with other documents, in connection with the Financing, the Company entered into a Convertible Note and Warrant Purchase Agreement (the "SPA") and, 12% Convertible Notes (the "Convertible Notes").

The proceeds of the Financing are being used by the Company to: (i) pay the initial cash consideration due to McCue shareholders as part of the acquisition of McCue Systems, Inc. by the Company; (ii) pay the final cash consideration due to former CQ Systems Inc. shareholders as part of the acquisition of CQ Systems, Ltd. (now NetSol-CQ); and (iii) provide working capital. The initial cash consideration due to McCue shareholders is \$2,117,864 and represents 38.51% of the total proceeds raised. The final cash consideration due to former CQ Systems, Inc. shareholders is £1,064,369 (which represents \$1,936,200.17 at the exchange rate of British pounds sterling into U.S. Dollars at June 28, 2006). The CQ payment represents 35.20% of the total funds raised in the Financing. The remaining funds are being used to pay fees due under the terms of the Financing and as working capital.

Pursuant to the terms of the SPA, each purchaser received a Convertible Note in the amount of their investment and a Warrant in an amount equal to 50% of the aggregate principal value of the Notes divided by the conversion value (currently \$1.65 per share). On October 18, 2006, our stockholders approved the issuance of all shares of common stock underlying the Preferred Stock, the Warrants, the Placement Agent Warrants and such additional shares of common stock that may be issued in lieu of cash as dividends due to Preferred Stock holders. On October 18, 2006, the Company provided each investor notice to exchange its Convertible Notes for (a) such number of shares of preferred stock as equals the principal amount exchanged divided by \$1,000 and (b) cash equal to the amount of unpaid interest on the notes through the exchange date. The Convertible Notes were exchanged for Preferred Stock on the Exchange Date, October 30, 2006. As of October 30, 2006 there are 5,500 shares of Preferred Stock issued and outstanding. As of the Exchange Date interest in the amount of \$251,166.67 was due to the Selling Stockholders. The Selling Stockholders accepted, in lieu of payment of interest in cash, 230,863 shares of common stock, on a pro rata basis due on the Exchange Date.

The Company agreed to register, on a registration statement to be filed with the SEC, the offered shares. Each investor is entitled to cash compensation equal to 1% of the cash value of the interest due under the Convertible Note for every 30 days that the offered shares remain unregistered (or a proportionally smaller amount if less than 30 days) from the Exchange Date of October 30, 2006. Shares issued in connection with the Financing are subject to distribution in accordance with a prospectus filed by the Company in connection with registration statement number 333-138103. Accordingly, shares offered for resale by the selling stockholders pursuant to this prospectus may be distributed concurrently with those offered for resale by the selling stockholders pursuant to the prospectus filed in connection with registration statement number 333-138103.

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## THE OFFERING

This prospectus relates to the offering for resale of NetSol Technologies, Inc. common stock by the selling stockholders named in this prospectus, who may use this prospectus to resell their shares of common stock. The shares of common stock being offered for resale by the selling stockholders are shares of common stock issued in lieu of cash interest payment on the Convertible Notes due at the Exchange Date. We will not receive any proceeds from sales of our common stock by the selling stockholders. For further information about the selling stockholders, see "Selling Stockholders."

**Common Stock Offered** This prospectus relates to the offering of 230,863 shares of our common stock, which may be sold from time to time by the selling stockholders named in this prospectus. The shares of our common stock are being registered to permit the selling stockholders to sell the shares from time to time in the public market. The selling stockholders will determine the timing and amount of any sale.

**Common Stock outstanding** We had 18,415,707 shares of common stock issued and outstanding as of February 26, 2007.

**Use of Proceeds** We will not receive any of the proceeds from sale of shares of common stock offered by the selling stockholders.

**Trading Market** Our common stock is currently listed on the NASDAQ Capital Market under the trading symbol "NTWK."

**Risk Factors** Investment in our common stock involves a high degree of risk. You should carefully consider the information set forth in the "Risk Factors" section of this prospectus as well as other information set forth in this prospectus, including our financial statements and related notes.

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## **RISK FACTORS**

An investment in our securities is extremely risky. You should carefully consider the following risks, in addition to the other information presented in this prospectus, before deciding to buy our securities. If any of the following risks actually materialize, our business and prospects could be seriously harmed and, as a result, the price and value of our securities could decline and you could lose all or part of your investment. The risks and uncertainties described below are intended to be the material risks that are specific to us and to our industry.

### **RISKS RELATED TO OUR BUSINESS**

#### **We May Have Difficulty Raising Needed Capital in the Future, Which Could Significantly Harm Our Business.**

We will require additional financing in order to support further expansion, develop new or enhanced services or products, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. Our ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as our business performance. There can be no assurance that we will be successful in our efforts to arrange additional financing on satisfactory terms. If additional financing is raised by the issuance of our securities, control of NetSol may change and stockholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, we may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

#### **We Will Require Additional Financing; We May Not Achieve Profitability; We Anticipate Continued Losses; Current Liabilities Exceed Current Assets.**

As of the fiscal year ended June 30, 2005 and 2006, we had a positive working capital of \$3,458,300 and \$10,675,583. We have current short-term bank notes of \$662,800 due within six months. We had a net income of \$663,325 in fiscal 2005, but a net loss of \$1,353,053 in fiscal 2006. In addition, we continue to operate at a deficit on a monthly basis, which is not expected to change in the foreseeable future, even with the implementation of our current business plan. Notwithstanding that we raised \$5,500,000 in June 2006, we may need to raise additional funds to continue operations and to expand and invest in the growth of our business for the next year. Additionally, we required a minimum of \$1,058,932 to pay the second installment of the acquisition of McCue Systems in June 2007. We cannot assure you that we can achieve, sustain or increase profitability. If revenues grow slower than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, our business, results of operations and financial condition will be materially and adversely affected. Although we have improved our financials steadily in last few quarters, no assurance can be given that we will continue to improve our financial condition.

#### **We May Not Be Able To Realize The Benefits Of Our Strategic Plan.**

We have undertaken a business plan designed to optimize the alignment of our business into two divisions (Global Products and Global Services) and three regions (North America, Europe and Asia Pacific). Although our management is confident about our ability to realize some benefits from the restructuring, the level of benefits to be realized could be affected by a number of factors including, without limitation: (a) our ability to raise sufficient funds; (b) our ability to continue to operate as planned without further stockholder hostile takeover attempts; (c) our ability to prosper given the current uncertainty in the US technology industry; and, (d) our ability to react effectively to the global political and business effects of the political events around the world and particularly in Pakistan.

**We Depend Heavily On A Limited Number Of Client Projects And The Loss Of Any Such Projects Would Adversely Affect Our Operating Results.**

As of the fiscal year ended June 30, 2006, we derived approximately 11% of our net revenues from DaimlerChrysler (which consists of a group of companies and clients). DaimlerChrysler consists of a number of companies, each of which are uniquely different customers and none of which represents greater than 10% of our net revenues. We also derived 12% of our net revenues from Toyota Motor Finance. As with DaimlerChrysler, Toyota consists of a number of companies, each of which are uniquely different customers and none of which represents greater than 10% of our net revenues. We continue to enhance our relationship with DaimlerChrysler to provide software and support services to them on a global basis. This may increase our reliance on DaimlerChrysler as a revenue source. We also have other significant clients whose business is critical to our success. The loss of any of our principal clients for any reason, including as a result of the acquisition of that client by another entity, could have an adverse effect on our business, financial condition and results of operations.

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**If Any Of Our Clients Terminate Their Contracts With Us, Our Business Could Be Adversely Affected.**

Many of our clients have the ability to cancel certain of their contracts with us with limited advance notice and without significant penalty. Any such termination could result in a loss of expected revenues related to that client's project. A cancellation or a significant reduction in the scope of a large project could have a material adverse effect on our business, financial condition and results of operations.

**If We Are Unable To Protect Our Proprietary Software, Our Business Could Be Adversely Affected.**

Our success as a company depends, in part, upon our work product being deemed proprietary software, along with other intellectual property rights. While both the LeaseSoft and NetSol trade names and marks are copyrighted and trademarked in Pakistan, we have not registered any trademarks or filed any copyrights in any other jurisdictions. We rely on a combination of nondisclosure and other contractual arrangements, and common law intellectual property, trade secret, copyright and trademark laws to protect our proprietary rights. As a matter of course, we generally enter into confidentiality agreements with our employees, and require that our consultants and clients enter into similar agreements. We also limit access to our proprietary information. There can be no assurance that these steps will be adequate to deter misappropriation of proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. In addition, although we believe that our services and products do not infringe on the intellectual property rights of others, there can be no assurance that infringement claims will not be asserted against us in the future, or that if asserted, any such infringement claim will be successfully defended. The cost of defending any such suit will have a negative impact, even if ultimately successful. A successful claim against us could materially adversely affect our business, financial condition and results of operations. If NetSol cannot protect its proprietary information, others could copy our software and compete with us in providing both software and services.

**We May Not Have The Right To Resell Or Reuse Software Developed For Specific Clients.**

A portion of our business involves the development of software for specific client engagements. Ownership of these solutions is the subject of negotiation and is frequently assigned to the client, although we may retain a license for certain uses. Some clients have prohibited us from marketing the software developed for them for specified periods of time or to specified third parties. There can be no assurance that our clients will not demand similar or other restrictions in the future. Issues relating to the ownership of and rights to use our software solutions can be complicated and there can be no assurance that potential disputes will not affect our ability to resell or reuse these software solutions. While we have not incurred such expense in the past, limitations on our ability to resell or reuse software solutions could require us to incur additional expenses to develop new solutions for future projects.

**International Expansion Of Our Business Could Result In Financial Losses Due To Changes In Foreign Political And Economic Conditions Or Fluctuations In Currency And Exchange Rates.**

We expect to continue to expand our international operations. As well as the two offices in the United States, we currently have offices in Pakistan, China, the UK and Australia. As of June 30, 2006 approximately 95% of our revenue is generated by non-U.S. sources. Our international operations are subject to other inherent risks, including:

• political uncertainty in Pakistan and the Southeast Asian Region, particularly in light of the United States' war on terrorism and the Iraq war;

• recession in foreign countries;

• fluctuations in currency exchange rates, particularly any continued weakness of the U.S. dollar and the effect this may have on U.S. off-shore technology spending;

- difficulties and costs of staffing and managing foreign operations;
- reduced protection for intellectual property in some countries;

political instability or changes in regulatory requirements or the potential overthrowing of the current government in certain foreign countries;

- U.S. imposed restrictions on the import and export of technologies; and,

U.S. imposed restrictions on the issuances of business and travel visas to foreign workers primarily those from Middle Eastern or East Asian countries.

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### **We Are Controlled By and Are Dependent On Our Key Personnel.**

Our management is currently controlled and operated by various members of the Ghauri family. Our success will depend in large part upon the continued services of those individuals including Messrs. Salim Ghauri, Najeeb Ghauri and Naeem Ghauri. The death or loss of the services of any one of them or of any one or more of our other key personnel could have a material adverse effect on our business, financial condition and results of operations. We do not have key man life insurance on these individuals. In addition, if one or more of our key employees resigns to join a competitor or to form a competing company, the loss of such personnel and any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on our business, financial condition and results of operations. In the event of the loss of any key personnel, there can be no assurance that we will be able to prevent the unauthorized disclosure or use of our technical knowledge, practices or procedures by such personnel. We entered into employment agreements with Messrs. Salim, Najeeb and Naeem Ghauri effective January 1, 2004, for a period of three (3) years. Messrs. Salim, Najeeb and Naeem Ghauri have non-competition and anti-raid clauses in their employment agreements with us.

### **Certain Of Our Management Team Have Relationships Which May Potentially Result In Conflicts Of Interests.**

In fiscal year 2002, certain of our management team loaned approximately \$141,893 to our Pakistani subsidiary company for operating costs. This loan accrued interest at the rate of 18% per annum and was to be repaid at such time as the Company could afford to repay the loan or through other methods that did not require a cash outlay by the Company, such as the exercise of options by the management team. Also, since 2002 our management team has, in the interest of improving the cash flow of the Company, elected to take only a portion of their salaries, deferring the remainder. In November 2003, the management team exercised options totaling \$200,973 the consideration of which was offset against funds due to the Company as repayment of the loan and as due but deferred compensation. In March 2004, the management team exercised options totaling \$75,000 of which all but \$24,512 was paid for with due but deferred compensation. The remaining \$24,511 was paid through the officers' normal salary deferral by the end of August 2004. In December 2004, the officers exercised options to acquire shares for which the officers mistakenly believed sufficient deferred compensation existed to pay for these exercises. When it was discovered that there was not sufficient deferred compensation, the shares were cancelled by the agreement of the Company and the officers. While these transactions were approved by the Board of Directors, which believes such transactions to be fair in their terms, and such transactions have not resulted in the management team choosing personal gain over Company gain, such transactions may have constituted a potential conflict of interest between our management members' personal interest and the interest of the Company in that management could be motivated to repay debts owed to the management team rather than using that money for the Company's growth. This, however, did not occur. Nevertheless, the errors related to the March 2004 and December 2004 transactions may constitute violations of Section 13(k)(1) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") by the Company and/or the named officers. A possible violation of Section 13(k)(1) of the Exchange Act may result in an investigation by the SEC which may have a materially adverse effect on the Company. Violations of Section 13(k) (1) of the Exchange Act may expose the Company and the named officers to possible civil and criminal penalties.

### **Certain Option Exercises May Result in a Violation of Section 13(k)(1)**

Officers of the Company have routinely either loaned funds to or deferred the receipt of consideration due to them at such times as the Company was in need of cash. These officers have frequently used these funds due to them to exercise options to acquire common stock of the Company. In March 2004, Najeeb and Naeem Ghauri exercised options to acquire shares of common stock of the Company. At the time of the exercise, they mistakenly believed that sufficient funds were due to them from the Company and compensation deferral to pay for these options. However, there was a deficit between the amount of funds due to the officers from the Company and the exercise price of the options. This deficit was repaid through the normal salary deferral to the Company by the end of May, in the case of

Mr. Naeem Ghauri and, the end of August 2004, in the case of Mr. Najeeb Ghauri. In December 2004, certain officers exercised options against salary deferrals due to them. Upon discovering that sufficient liabilities were not available to offset the monies due for the exercise, these shares were immediately cancelled by the Company. Section 13(k)(1) of the Exchange Act prohibits companies from making loans to officers. The SEC may view the difference between the exercise price due and the amounts credited as a prohibited loan to these officers. The errors related to the March 2004 and December 2004 transactions may constitute violations of Section 13(k)(1) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") by the Company and/or the named officers. A possible violation of Section 13(k)(1) of the Exchange Act may result in an investigation by the SEC which may have a materially adverse effect on the Company. Violations of Section 13(k)(1) of the Exchange Act may expose the Company and the named officers to possible civil and criminal penalties.

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**We Face Significant Competition In Markets That Are New And Rapidly Changing.**

The markets for the services we provide are highly competitive. We principally compete with strategy consulting firms, Internet professional services firms, systems integration firms, software developers, technology vendors and internal information systems groups. Many of the companies that provide services in the markets we have targeted have significantly greater financial, technical and marketing resources than we do, have greater name recognition and generate greater revenues. Potential customers may also have in house employees that can compete with or replace us. In addition, there are relatively low barriers to entry into these markets and we expect to continue to face competition from new entrants into these same markets. We believe that the principal competitive factors in these markets include:

- our ability to integrate strategy, experience modeling, creative design and technology services;
  - quality of service, speed of delivery and price;
  - industry knowledge;
  - sophisticated project and program management capability; and,
  - Internet technology expertise and talent.

We believe that our ability to compete also depends on a number of competitive factors outside our control, including:

- ability of our competitors to hire, retain and motivate professional staff;
- development by others of Internet services or software that is competitive with our solutions; and
  - extent of our competitors' responsiveness to client needs.

There can be no assurance that we will be able to compete successfully in these markets.

**RISKS RELATED TO INVESTING IN THIS OFFERING**

**Questions Raised About the Availability of an Exemption for a Private Placement of Interest Shares to Investors in the Private Placement of Our Convertible Notes May Give Rise to a Right to Rescission and We Could Be Liable For Up To The Amount Of The Purchase Price Of The Interest Shares.**