NETSOL TECHNOLOGIES INC
Form 10QSB
November 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2006

o For the transition period from __________ to __________

Commission file number: 0-22773

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

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

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

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

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

Yes x No o

The issuer had 17,647,396 shares of its $.001 par value Common Stock issued and outstanding as of November 10, 2006.

Transitional Small Business Disclosure Format (check one)

Yes o No x

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET — SEPTEMBER 30, 2006
(UNAUDITED)

ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,822,420	
Accounts receivable, net of allowance for doubtful accounts of $106,090	6,356,012	
Revenues in excess of billings	5,103,259	
Other current assets	2,666,324	
Total current assets		17,948,015
Property and equipment, net of accumulated depreciation		6,411,173
Intangibles:		
Product licenses, renewals, enhancements, copyrights,		
trademarks, and tradenames, net	5,615,521	
Customer lists, net	2,948,387	
Goodwill	6,092,906	
Total intangibles		14,656,814
Total assets		$ 39,016,002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,422,167	
Current portion of notes and obligations under capitalized leases	698,701	
Other payables - acquisitions	60,637	
Billings in excess of revenues	1,085,816	
Due to officers	231,955	
Loans payable, bank	988,957	
Total current liabilities		7,488,233
Obligations under capitalized leases, less current maturities		164,947
Convertible notes payable - net		4,203,460
Total liabilities		11,856,640
Minority interest		1,874,319
Commitments and contingencies		-
Stockholders' equity:		
Common stock, $.001 par value; 45,000,000 share authorized;		
17,618,289 issued and outstanding	17,618	
Additional paid-in-capital	59,517,012	
Treasury stock	(10,194)	
Accumulated deficit	(32,968,005)	
Stock subscription receivable	(1,041,750)	
Common stock to be issued	263,512	
Other comprehensive loss	(493,150)	
Total stockholders' equity		25,285,043
Total liabilities and stockholders' equity		$ 39,016,002

See accompanying notes to these unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended September 30, 2006	2005
Revenues:		
Licence fees	$ 1,578,412	$ 462,478
Maintenance fees	1,294,964	525,915
Services	2,989,184	3,481,592
Total revenues	5,862,560	4,469,985
Cost of revenues:		
Salaries and consultants	1,902,812	1,141,534
Travel and entertainment	339,676	165,599
Communication	42,065	23,804
Depreciation and amortization	162,518	122,668
Other	364,489	213,745
Total cost of sales	2,811,560	1,667,350
Gross profit	3,051,000	2,802,635
Operating expenses:		
Selling and marketing	351,802	318,864
Depreciation and amortization	488,643	552,531
Bad debt expense	65,808	-
Salaries and wages	1,050,106	536,376
Professional services, including non-cash compensation	278,005	139,111
General and adminstrative	975,843	583,547
Total operating expenses	3,210,207	2,130,429
Income (loss) from operations	(159,207)	672,206
Other income and (expenses)		
Gain (loss) on sale of assets	(12,280)	391
Beneficial conversion feature	-	(6,569)
Fair market value of warrants issued	-	(9,489)
Amortization of debt discount and capitalized cost of debt	(734,659)	-
Gain on forgiveness of debt	-	3,641
Interest expense	(249,790)	(79,023)
Interest income	90,746	84,412
Other income and (expenses)	69,323	(32,503)
Income taxes	(52,824)	(62,108)
Total other expenses	(889,484)	(101,248)
Net income (loss) before minority interest in subsidiary	(1,048,691)	570,958
Minority interest in subsidiary	(247,273)	(367,213)
Net income (loss)	(1,295,964)	203,745
Other comprehensive loss		
Translation adjustment	(73,490)	(120,820)
Comprehensive income (loss)	$ (1,369,454)	$ 82,925
Net income (loss) per share		
Basic	$ (0.08)	$ 0.01
Diluted	$ (0.08)	$ 0.01

Weighted average number of shares outstanding		
Basic	17,046,715	13,897,883
Diluted	17,046,715	14,246,614

See accompanying notes to these unaudited consolidated financial statements.

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

	For the Three Months Ended September 30, 2006	2005
Cash flows from operating activities:		
Net income (loss)	$ (1,295,964)	$ 203,745
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	651,161	644,733
Bad debt expense	65,808	-
Gain on settlement of debt	-	(3,641)
(Gain) loss on sale of assets	12,280	(391)
Minority interest in subsidiary	247,273	367,213
Stock issued for services	30,600	60,856
Fair market value of warrants and stock options granted		9,489
Beneficial conversion feature	-	6,569
Amortization of debt discount and capitalized cost of debt	734,659	-
Changes in operating assets and liabilities:		
Increase in assets:		
Accounts receivable	(250,489)	(123,256)
Other current assets	(354,871)	(1,731,193)
Decrease in liabilities:		
Accounts payable and accrued expenses	(520,473)	(540,968)
Other payable - acquisition	(4,025,567)	-
Net cash used in operating activities	(4,705,583)	(1,106,844)
Cash flows from investing activities:		
Purchases of property and equipment	(238,323)	(817,676)
Sales of property and equipment	24,553	91,046
Purchases of certificates of deposit	-	(2,282,097)
Proceeds from sale of certificates of deposit	1,739,851	-
Increase in intangible assets	(585,631)	(211,844)
Net cash provided by (used in) investing activities	940,450	(3,220,571)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	-	288,062
Capital contributed from sale of subsidiary stock	-	4,031,001
Reduction in restricted cash	4,533,555	-
Proceeds from loans from officers	165,000	-
Proceeds from convertible notes payable & interest	167,489	-
Payments on capital lease obligations & loans - net	237,702	91,236
Net cash provided by financing activities	5,103,746	4,410,299
Effect of exchange rate changes in cash	(9,961)	14,543
Net increase in cash and cash equivalents	1,328,652	97,427
Cash and cash equivalents, beginning of period	2,493,768	1,371,727
Cash and cash equivalents, end of period	$ 3,822,420	$ 1,469,154

See accompanying notes to the unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

	For the Three Months Ended September 30,			
	2006		2005	
SUPPLEMENTAL DISCLOSURES:				
Cash paid during the period for:				
Interest	$	70,013	$	57,398
Taxes	$	-	$	-
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Stock issued for accrued expenses and payables	$	15,000	$	-
Stock issued for intangible assets	$	137,360	$	-
Common stock issued for conversion of convertible debenture	$	-	$	50,000
Common stock issued for acquisition of subsidiary	$	1,582,328	$	-

See accompanying notes to the unaudited consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The Company designs, develops, markets, and exports proprietary software products to customers in the automobile finance and leasing, banking and financial services industries worldwide. The Company also provides 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-KSB for the year ended June 30, 2006. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

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

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

NOTE 2 - USE OF ESTIMATES:

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

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS:

In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded

derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. SFAS No. 155 is not expected to have a material effect on the consolidated financial position or results of operations of the Company.

In March 2006 FASB issued SFAS 156 'Accounting for Servicing of Financial Assets' this Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.

2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.

3. Permits an entity to choose 'Amortization method' or 'Fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities.

4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.

5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

This Statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

In September 2006, FASB issued SFAS 157 'Fair Value Measurements'. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The management is currently evaluating the effect of this pronouncement on the consolidated financial statements.

In September 2006, FASB issued SFAS 158 'Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)' This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

1. A brief description of the provisions of this Statement
2. The date that adoption is required
3. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The management is currently evaluating the effect of this pronouncement on the consolidated financial statements.

NOTE 4 - EARNINGS/(LOSS) PER SHARE:

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

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

For the three months ended September 30, 2006	Net Income		Shares	Per Share	
Basic earnings (loss) per share:	$	(1,295,964)	17,046,715	$	(0.08)
Net income available to common shareholders					
Effect of dilutive securities *					
Stock options					
Warrants					
Diluted earnings per share	$	(1,295,964)	17,046,715	$	(0.08)

For the three months ended September 30, 2005	Net Income		Shares	Per Share	
Basic earnings per share:	$	203,745	13,897,883	$	0.01
Net income available to common shareholders					
Effect of dilutive securities					
Stock options			347,064		
Warrants			1,667		
Diluted earnings per share	$	203,745	14,246,614	$	0.01

* As there is a loss, these securities are anti-dilutive. The basic and diluted earnings per share is the same for the three months ended September 30, 2006

NOTE 5 - FOREIGN CURRENCY:

The accounts of NetSol Technologies UK, Ltd., and NetSol-CQ Ltd. use the British Pound; NetSol Technologies, (PVT), Ltd, NetSol Connect PVT, Ltd., NetSol Omni, and NetSol-TiG use Pakistan Rupees; and NetSol Abraxas Australia Pty, Ltd. uses the Australian dollar as the functional currencies. NetSol Technologies, Inc., and subsidiary McCue Systems, Inc., 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 of $493,150 at September 30, 2006 are classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet. During the three months ended September 30, 2006 and 2005, comprehensive loss in the consolidated statements of operations included translation loss of $73,490 and $120,820, respectively.

NOTE 6 - OTHER CURRENT ASSETS

Other current assets consist of the following at September 30, 2006:

Prepaid Expenses	$	1,392,772
Advance Income Tax		131,196
Employee Advances		105,595
Security Deposits		105,239
Other Receivables		252,231
Other Assets		101,788
Debt issuance costs		577,503
Total	$	2,666,324

NOTE 7 - DEBTS

NOTES PAYABLE

Notes payable as of September 30, 2006 consist of the following:

Name	Balance at 9/30/06	Current Maturities	Long-Term Maturities
D&O Insurance	$ 18,892	$ 18,892	$ -
Professional Liability Insurance	-	-	-
Noon Group	528,582	528,582	-
Subsidiary Capital Leases	151,227	151,227	-
	$ 698,701	$ 698,701	$ -

In June 2002, the Company signed a settlement agreement with a former employee for payment of past services rendered. The Company agreed to pay the employee a total of $75,000. The agreement called for monthly payments of $1,500 per month until paid. The balance owing at June 30, 2006 was $16,300. In July 2006, the full amount of $16,300 plus $2,934 of interest was paid on this debt.

In January 2006, the Company renewed its directors and officers' liability insurance for which the annual premium is $185,000. In January 2006, the Company arranged financing with AFCO Credit Corporation with a down payment of $19,007 with the balance to be paid in nine monthly installments of $19,007 each. The balance owing as of September 30, 2006 was $18,892.

In February 2005, the Company received a loan from Noon Group in the amount of $500,000. The note carries an interest rate of 9.75% per annum and is due in one year. The maturity date of the loan may be extended at the option of the holder for an additional year. In March, 2006, the note was extended for another year. During the quarter ended September 30, 2006, $12,288 of accrued interest was recorded for this loan. Total accrued interest added to the loan at September 30, 2006 was $28,582.

In addition, the various subsidiaries had current maturities of capital leases of $151,227 as of September 30, 2006.

BANK NOTE

The Company's Pakistan subsidiary, NetSol Technologies (Private) Ltd., has one loan with a bank, secured by the Company's assets. The note consists of the following as of September 30, 2006:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE	BALANCE USD
Export Refinance	Every 6 months	9%	$ 988,957
Total			$ 988,957

OTHER PAYABLE - ACQUISITION

<u>CQ System</u>

In June 2006, the final installment for the purchase of CQ Systems was determined based on the audited revenues for the twelve month period ending March 31, 2006. Based on the earn-out formula in the purchase agreement, £2,087,071 or $3,785,210 was due in cash and stock. On June 12, 2006, 884,535 shares of the Company's restricted common stock were issued to the former shareholders of CQ Systems. As of June 30, 2006, a payable to former CQ Systems shareholders consisting of the cash portion of $1,936,530 and an interest expense of $31,810 for a total of $1,968,340 was shown as "Other Payable - Acquisition" in the consolidated financial statements. In July 2006, the cash was paid to the former shareholders.

McCue Systems

On June 30, 2006, the acquisition with McCue Systems, Inc. ("McCue") closed (see Note 14). As a result, the first installment consisting of $2,117,864 cash and 958,213 shares of the Company's restricted common stock was recorded. The cash portion was shown as "Other Payable - Acquisition" and the stock was shown as "Shares to Be Issued" as of June 30, 2006. During the quarter ended September 30, 2006, $2,057,227 of the cash portion of was paid to the McCue shareholders leaving a balance to be paid of $60,637. This represents the few remaining McCue shareholders that have not been located as of this date. In July 2006 the stock was issued.

DUE TO OFFICERS

The officers of the Company from time to time loan funds to the Company. One of the officers has deferred the increase in his wages. During the quarter ended September 30, 2006, $18,750 of accrued wages was added to the balance due to officers and $41,102 was remitted to one officer against the amounts owing to him. In addition, one subsidiary had $33,745 due to an officer of the subsidiary.

On September 1, 2006, an officer of the Company loaned $165,000 to the Company for its immediate short-term cash needs in the corporate office. The loan has a maturity date of three months and is interest free. The terms of the loan were approved by the Company's board of directors.

The balance of due to officers as of September 30, 2006 was $231,955.

NOTE 8 - STOCKHOLDERS' EQUITY:

EQUITY TRANSACTIONS

Private Placements

In August 2004, the Company sold 190,476 shares of the Company's common stock for $200,000 in a private placement. As of June 30, 2006, $128,000 had been received and a total of 87,143 shares were issued to the purchaser. During the quarter ended September 30, 2006, 34,762 shares were issued on amounts previously received. The remaining balance of $72,000 or 68,571 shares are shown as "Shares to Be Issued" on the accompanying financial statements.

Services

In October 2005, the Company entered into an agreement with a vendor whereby the Company agreed to issue $2,500 worth of stock per month as payment for services rendered. The stock is to be issued after the end of each quarter. The Company issued 3,841 shares of its common stock during the quarter ended September 30, 2006 and recorded 4,334 shares of common stock valued at $7,500 to "Stock to Be Issued" under this agreement as of September 30, 2006.

In July 2005, the Board of Directors and officers were granted the right to receive shares of the Company's common stock if certain conditions were met during their 2005 - 2006 term of office. These conditions were met and a total of 15,000 restricted Rule 144 common shares were issued in August 2006. The shares were valued at the fair market value at the date of grant of $23,100 or $1.54 per share.

Business Combinations:

In June 2006, the Company completed the acquisition of McCue Systems, Inc. (see Note 14). As part of this agreement, the Company issued 930,781 shares of its restricted common stock valued at $1,582,328 to the

shareholders of McCue Systems.

Options and Warrants Exercised

During the quarter ended September 30, 2006, the Company issued 470,000 shares of its common stock for the exercise of options valued at $757,500. Of this, $742,500 was recorded as “Stock Subscription Receivable” and $15,000 was a cashless exercise whereby the exercise price was applied against amounts owed by the Company to a Director. In addition, 3,030 shares of the Company’s common stock valued at $5,000 was issued against payments made in the previous quarter and was recorded as a reduction in “Shares to Be Issued.”

STOCK SUBSCRIPTION RECEIVABLE

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

During the quarter ended September 30, 2006, issued a total of $742,500 of new receivables. The balance at September 30, 2006 was $1,041,750.

COMMON STOCK PURCHASE WARRANTS AND OPTIONS

From time to time, the Company issues options and warrants as incentives to employees, officers and directors, as well as to non-employees.

Common stock purchase options and warrants consisted of the following as of September 30, 2006:

	# shares		Exercise Price		Aggregated Intrinsic Value
Options:					
Outstanding and exercisable, June 30, 2006	8,585,500	$	0.75 to $5.00	$	269,125
Granted	-				
Exercised	(470,000)	$	0.75 to $1.75		
Expired	-				
Outstanding and exercisable, September 30, 2006	8,115,500	$	0.75 to $5.00	$	415,775
Warrants:					
Outstanding and exercisable, June 30, 2006	2,598,937	$	1.75 to $5.00	$	13,333
Granted	-				
Exercised	-				
Expired	-				
Outstanding and exercisable, September 30, 2006	2,598,937	$	1.65 to $5.00	$	50,667

Options:

There were no options granted or vested during the quarter ended September 30, 2006.

During the quarter ended September 30, 2005, a total of 320,000 options were granted to employees of the company and are fully vested and expire ten years from the date of grant unless the employee terminates employment, in which case the options expire within 30 days of their termination. The exercise price of the options ranges from $1.75 to $2.89. No expense was recorded for these options.

Prior to July 1, 2006, the Company measured stock compensation expense using the intrinsic value method of accounting in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations (APB No. 25).

The company adopted SFAS No. 123-R effective July 1, 2006 using the modified prospective method. Under this transition method, stock compensation expense recognized in the quarter ended September 30, 2006 includes compensation expense for all stock-based compensation awards vested during the quarter ended September 30, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R. As there were no options granted or vested since the implementation of SFAS 123-R, no expense has been recorded during the quarter ended September 30, 2006.

For periods presented prior to the adoption of SFAS No. 123R, pro forma information regarding net income and earnings per share as required by SFAS No. 123R has been determined as if the Company had accounted for its employee stock options under the original provisions of SFAS No. 123. The fair value of these options was estimated using the Black-Scholes option pricing model. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the option’s vesting period. The pro forma expense to recognize during the quarter ended September 30, 2005 is as follows:

		2005
Net income (loss) - as reported	$	203,745
Stock-based employee compensation expense,		
included in reported net loss, net of tax		-
Total stock-based employee compensation		
expense determined under fair-value-based		
method for all rewards, net of tax		(388,750)
Pro forma net loss	$	(185,005)
Earnings per share:		
Basic, as reported		0.01
Diluted, as reported		0.01
Basic, pro forma		(0.01)
Diluted, pro forma		(0.01)

Pro forma information using the Black-Scholes method at the date of grant was based on the following assumptions:

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

Impact of adoption of SFAS No. 123-R in the quarter ended September 30, 2006

There was no stock compensation expense measured in accordance with SFAS No. 123-R since there were no options granted or vested during the quarter ended September 30, 2006.

Methods of estimating fair value

Under both SFAS No. 123-R and under the fair value method of accounting under SFAS No. 123 (i.e., SFAS No. 123 Pro Forma), the fair value of stock options is determined using the Black-Scholes model.

Under SFAS No. 123-R, the company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

SFAS No. 123-R requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

Warrants:

During the quarter ended September 30, 2005, one debenture holder converted their note into common stock. As part of the conversion, warrants to purchase a total of 13,441 common shares were issued to the note holder. The warrants expire in five years and have an exercise price of $3.30 per share. The warrants were valued using the fair value

method at $9,489 or $0.71 per share and recorded the expense in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate	3.25%
Expected life	5 years
Expected volatility	56%
Dividend yield	0%

NOTE 9 - INTANGIBLE ASSETS:

Intangible assets consist of product licenses, renewals, enhancements, copyrights, trademarks, trade names, customer lists and goodwill. The Company evaluates intangible assets, goodwill and other long-lived assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets and, goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. Potential impairment of goodwill has been evaluated in accordance with SFAS No. 142.

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

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

Product licenses and customer lists were comprised of the following as of September 30, 2006:

	Product Licenses	Customer Lists	Total
Intangible asset - June 30, 2006	$ 10,920,327	$ 5,438,594	$ 16,358,921
Additions	691,711	12,500	704,211
Effect of translation adjustment	38,100	-	38,100
Accumulated amortization	(6,034,617)	(2,502,707)	(8,537,324)
Net balance - March 31, 2006	$ 5,615,521	$ 2,948,387	$ 8,563,908
Amortization expense:			
Quarter ended September 30, 2006	$ 236,678	$ 173,661	$ 410,339
Quarter ended September 30, 2005	$ 345,754	$ 157,155	$ 502,909

The above amortization expense includes amounts in “Cost of Goods Sold” for capitalized software development costs of $21,454 and $18,875 for the quarters ended September 30, 2006 and 2005, respectively.

At September 30, 2006 and 2005, product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, included unamortized software development and enhancement costs of $3,097,446 and $1,572,675, respectively, as the development and enhancement is yet to be completed. Software development amortization expense was $60,814 and $27,755 for the quarters ended September 30, 2006 and 2005, respectively.

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

Asset	FISCAL YEAR ENDING 9/30/07	9/30/08	9/30/09	9/30/10	9/30/11	TOTAL
Product Licences	$ 911,592	$ 908,217	$ 781,478	$ 437,822	$ 169,500	$ 3,208,609
Customer Lists	694,644	694,644	694,644	541,008	323,448	2,948,388
	$ 1,606,236	$ 1,602,861	$ 1,476,122	$ 978,830	$ 492,948	$ 6,156,997

There were no impairments of the goodwill asset in the periods ended September 30, 2006 and 2005.

NOTE 10 - SEGMENT INFORMATION

The Company has identified three global regions or segments for its products and services. The following table presents a summary of operating information and certain year-end balance sheet information for the three months ended September 30:

	2006	2005
Revenues from unaffiliated customers:		
North America	$ 1,303,026	$ -
Europe	1,488,335	1,644,683
Asia - Pacific	3,071,199	2,825,302
Consolidated	$ 5,862,560	$ 4,469,985
Operating income (loss):		
North America	$ (736,509)	$ (913,708)
Europe	(136,113)	313,066
Asia - Pacific	713,415	1,272,848
Consolidated	$ (159,207)	$ 672,206
Identifiable assets:		
North America	$ 14,363,555	$ 5,839,916
Europe	5,026,237	3,345,735
Asia - Pacific	19,626,210	16,453,817
Consolidated	$ 39,016,002	$ 25,639,468
Depreciation and amortization:		
North America	$ 384,965	$ 482,991
Europe	57,691	33,609
Asia - Pacific	208,505	128,133
Consolidated	$ 651,161	$ 644,733
Capital expenditures:		
North America	$ 6,795	$ -
Europe	31,840	60,634
Asia - Pacific	199,688	757,042
Consolidated	$ 238,323	$ 817,676

NOTE 11 - MINORITY INTEREST IN SUBSIDIARY

The Company had minority interests in several of its subsidiaries. The balance of the minority interest as of September 30, 2006 was as follows:

SUBSIDIARY	MIN INT %	MIN INT BALANCE AT 9/30/06
Connect	49.90%	$ 266,863
NetSol-TiG	49.90%	913,634
PK Tech	28.13%	689,656
Omni	49.90%	4,166
Total		$ 1,874,319

NetSol Connect:

In August 2003, the Company entered into an agreement with United Kingdom based Akhter Group PLC ("Akhter"). Under the terms of the agreement, Akhter Group acquired 49.9 percent of the Company's subsidiary; Pakistan based NetSol Connect PVT Ltd. ("Connect"), an Internet service provider ("ISP"), in Pakistan through the issuance of additional Connect shares. As part of this Agreement, Connect changed its name to NetSol Akhter. The partnership with Akhter Computers is designed to rollout connectivity and wireless services to the Pakistani national market.

As of June 30, 2006, a total of $751,356 had been transferred to Connect, of which $410,781 was from Akhter and a total of $40,000 cash was distributed to each partner as a return of capital. During the quarter ended September 30, 2006 an additional $20,000 was distributed as a return of capital.

For the quarters ended September 30, 2006 and 2005, the subsidiary had net loss of $68,563 and net income of $51,538, respectively, of which ($34,213) and $25,717 respectively, was recorded against the minority interest. The balance of the minority interest at September 30, 2006 was $266,863.

NetSol-TiG:

In December 2004, NetSol forged a strategic relationship with a UK based public company TIG Plc. A Joint Venture was signed by the two companies to create a new company, TiG NetSol Pvt Ltd. ("NetSol-TiG"), with 50.1% ownership by NetSol Technologies, Inc. and 49.9% ownership by TiG. The agreement anticipates TiG's technology business to be outsourced to NetSol's offshore development facility.

During year ended June 30, 2005, the Company invested $253,635 and TiG invested $251,626 and the subsidiary began operations during the quarter ended March 31, 2005.

For the quarters ended September 30, 2006 and 2005, the subsidiary had net income of $193,563 and $240,166, of which $96,588 and $119,843 was recorded against the minority interest, respectively. The balance of the minority interest at September 30, 2006 was $913,634.

NetSol Technologies, Limited ("PK Tech")

In August 2005, the Company's wholly-owned subsidiary, NetSol Technologies (Pvt), Ltd. ("PK Tech") became listed on the Karachi Stock Exchange in Pakistan. The Initial Public Offering ("IPO") sold 9,982,000 shares of the subsidiary to the public thus reducing the Company's ownership by 28.13%. Net proceeds of the IPO were $4,890,224. As a result of the IPO, the Company is required to show the minority interest of the subsidiary on the accompanying consolidated financial statements.

For the quarters ended September 30, 2006 and 2005, the subsidiary had net income of $670,781 and $952,384, of which $188,691 and $221,653 was recorded against the minority interest. The balance of the minority interest at September 30, 2006 was $689,656.

Talk Trainers (Private) Limited ("Talk Trainers") - NetSol Omni

In February 2006, the Company purchased for $60,012 50.1% of the outstanding shares in Talk Trainers (Private) Limited, ("Talk Trainers"), a Pakistan corporation which provides educational, professional courses, training and Human Resource services to the corporate sector. The major stockholder of Talk Trainers was Mr. Ayub Ghuari, brother to the executive officers of the Company, and therefore the acquisition was recorded at historical cost as the entities are under common control. As the effects of this transaction are immaterial to the Company overall, no pro forma information is provided. During the quarter ended June 30, 2006, Talk Trainers changed their name to NetSol Omni.

For the quarter ended September 30, 2006, the subsidiary had a net loss of $7,600, of which ($3,792) was recorded against the minority interest. The balance of the minority interest at September 30, 2006 was $4,167.

NOTE 12 - CONVERTIBLE DEBENTURE

On March 24, 2004, the Company entered into an agreement with several investors to acquire Series A Convertible Debentures (the "Bridge Loan") whereby a total of $1,200,000 in debentures were procured through Maxim Group, LLC. The Company received a net of $1,049,946 after placement expenses. In addition, the beneficial conversion feature of the debenture was valued at $252,257. The Company had recorded this as a contra-account against the loan balance and amortized the beneficial conversion feature over the life of the loan.

Under the terms of the Bridge Loan agreements, and supplements thereto, the debentures bore an interest at the rate of 10% per annum, payable on a quarterly basis in common stock or cash at the election of the Company. The maturity date was 24 months from the date of signing, or March 26, 2006. Pursuant to the terms of a supplemental agreement dated May 5, 2004 between NetSol and the debenture holders, the conversion rate was set at one share for each $1.86 of principal.

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

NOTE 13 - CONVERTIBLE NOTE PAYABLE

On June 15, 2006, the Company entered into an agreement with 5 accredited investors whereby the Company issued 5 convertible notes payable for an aggregate principal value of $5,500,000. These notes bear interest at the rate of 12% per annum and are due in full one year from the issuance date or on June 15, 2007 (the "Financing"). The Convertible Notes may immediately convert into shares of common stock of the Company at the conversion value (initially set at one share per $1.65 of principal dollar) to the extent that such conversion does not violate Nasdaq Market Place rules. Due to the limitation rule, none of the note is convertible as of September 30, 2006. Upon the approval of the stockholders, to the extent not already converted into common shares, the Convertible Notes Payable will immediately convert into shares of Preferred Stock. On October 18, 2006, the shareholders approved the shares and on October 30, 2006 the notes were converted into 5,500 shares of Preferred Stock. During the quarter ended September 30, 2006, $167,489 of interest was accrued. As of September 30, 2006, a total of $194,989 in accrued interest had been recorded on the notes and was added to the principle of the notes.

The common stock shares issued under this financing agreement, including warrants, are to be registered within 120 days after closing. If the Company does not meet the registration requirement, the Company shall pay in cash as liquidated damages for such failure and not as a penalty to each Holder an amount equal to one percent (1%) of such Holder's Purchase Price paid by such Holder pursuant to the Purchase Agreement for each thirty (30) day period until the applicable Event has been cured. To date, no shares of common stock have been issued to the investors in the Financing.

As part of the agreement, the investors received warrants to purchase 1,666,668 shares of the Company's common stock. The warrants have an exercise price of $2.00 and expire in five years. These warrants were valued using the Black-Scholes model at $2,108,335 and have been capitalized as a contra-account against the note balance in these consolidated financial statements. These costs are being amortized over the life of the loan or a pro-rata basis as the loan is converted into common or preferred stock. During the quarter ended September 30, 2006, $530,834 of these costs were amortized and recorded as "amortization of debt discount" in the accompanying consolidated financial statements. As of September 30, 2006, the balance was $1,491,529.

The Black-Scholes pricing model used the following assumptions:

Risk-free interest rate	6.00%
Expected life	5 years
Expected volatility	100%
Dividend yield	0%

The net balance of the notes at September 30, 2006 was $4,203,460.

In connection with this financing the Company paid $474,500 in cash for placement agent fees and legal fees. These costs were capitalized and are being amortized over the life of the loan or a pro-rata basis as the loan is converted into common or preferred stock. During the quarter ended September 30, 2006, $118,625 of these costs were amortized and recorded as amortization of capitalized cost of debt in the accompanying consolidated financial statements.

As part of the financing, warrants to purchase 266,666 shares of the Company's common stock were issued to the placement agent as part of their fee. The warrants have an exercise price of $1.65 and expire in two years. These warrants were valued using the Black-Scholes model at $340,799 and have been capitalized in these consolidated financial statements. These costs are being amortized over the life of the loan or a pro-rata basis as the loan is converted into common or preferred stock. During the quarter ended September 30, 2006, $85,200 of these costs were amortized and recorded as amortization of capitalized cost of debt in the accompanying consolidated financial statements.

The Black-Scholes pricing model used the following assumptions:

Risk-free interest rate	6.00%
Expected life	2 years
Expected volatility	100%
Dividend yield	0%

NOTE 14 - ACQUISITION OF McCUE SYSTEMS

On May 6, 2006, the Company entered into an agreement to acquire 100% of the issued and outstanding stock of with McCue Systems, Inc. ("McCue"), a California corporation. The acquisition closed on June 30, 2006. The initial purchase price was estimated at $8,471,455 of which one-half was due at closing payable in cash and stock. The other half is due in two installments over the next two years based on revenues after the audited December 31, 2006 and 2007 financial statements are completed. On the closing date, $2,117,864 payable and 958,213 shares to be issued valued at $1,628,979, adjusted for the market value at closing, were recorded. In July 2006, $2,057,227 in cash was paid and 930,781 of the shares were issued.

The following is the proforma financial information of the Company for the three months ended September 30, 2005 assuming the transaction had been consummated at the beginning of the fiscal year ended June 30, 2006:

		For the three months ended Sept. 30, 2005 (Unaudited)
Statement of operations:		
Revenues	$	6,147,069
Cost of sales		2,484,437
Gross profit		3,662,632
Operating expenses		2,718,707
Income from operations		943,925
Other expenses		(90,137)
Income before minority interest		853,788
Minority interest in subsidiary		(367,213)
Net income	$	486,575
Earnings per share:		
Basic	$	0.04
Diluted	$	0.03

NOTE 15 - SUBSEQUENT EVENTS

On October 18, 2006, a special meeting of the Company's shareholders was held to approve, amongst other issuances, the shares to be issued to the investors underlying the convertible note and, upon conversion, the preferred shares. On October 30, 2006, the convertible notes payable were converted into 5,500 shares of the Company's Series A 7% Cumulative Convertible Preferred stock. (See note 13). On October 20, 2006, a registration statement on form S-3 was filed to register these shares.

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, 2006.

Forward-Looking Information.

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

INTRODUCTION

NetSol Technologies, Inc. (F/K/A NetSol International, Inc. "NetSol" or the "Company") is 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. The Company’s focus has remained the lease and finance, banking and financial services industries. The Company operates on a global basis with locations in China, Europe, East Asia and the U.S. By utilizing its worldwide resources, the Company believes it has been able to deliver high quality, cost-effective IT products and IT services. The Company’s subsidiary, NetSol Technologies Ltd. ("NetSol PK") develops the majority of the software for the Company. 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. The two recent acquisitions, of CQ Systems in the United Kingdom and McCue Systems, in the United States, add an onshore development capacity. The capacity and capability of these locations provide the Company with contingency development centers in the event of any unforeseen crises at the Lahore facility. Currently about 30% of the Company's software development takes place in these locations while 70% takes place at the Lahore technology campus.

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

that the use of this model will only further benefit the Company in its penetration of US, European, developed and developing country markets.

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 bespoke software development, software analysis and design, testing services, off shore as well as onsite quality assurance services, consultancy in quality engineering and process improvement including assistance in implementation of ISO and CMMI quality standards, Business Process Reengineering, consultancy in Basel-II, Business intelligence, information security, systems integration, System Reengineering, Maintenance and support of existing systems and Project Management.

The Company is divided into two groups, the Global Product Group and the Global Services Group; and three regions: North America, Europe and Asia Pacific. The North American Region is headed by John McCue, Chief Executive Officer of the Company's newly acquired subsidiary, McCue Systems, Inc. based in Burlingame, California. 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.

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

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

The European Region is headed by former NetSol Chief Executive Officer, Naeem Ghauri. The European region will continue to capitalize on the 2005 acquisition of CQ Systems Ltd. (now NetSol-CQ). 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 NetSol-CQ's knowledge base and strong presence in the Asset Finance market to launch LeaseSoft in the UK and continental Europe. NetSol-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.

NetSol has already initiated an active plan to gradually move some of the software production activities at NetSol-CQ to its offshore development center in Lahore. This phase of the transition plan has been completed whereby a dedicated team of software engineers and testers have been trained on the NetSol-CQ product suite and most of the quality assurance, documentation and some of the NetSol-CQ products core software development activities have been transitioned to Lahore. While it is expected that a gradual reduction in costs on a like for like basis at NetSol-CQ will occur, the expected growth in Netsol-CQ Systems business over the next eighteen months, would result in higher level of cost efficiencies for using the Lahore offshore facility for software development and quality assurance.

NetSol-CQ continues to invest into enhancing its strong product line. A new version of LeaseSoft Asset was released with DIP (Document Imaging and Processing). A number of new releases are planned over this year and the management has a strong commitment to continue to invest into the LeaseSoft product suite.

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

Finally, the Asia Pacific Region is headed by former President of NetSol and current Chief Executive Officer of NetSol Technologies, Ltd. (the Company's Pakistan subsidiary), Salim Ghauri. The Asian continent, Australia and New Zealand, from the perspective of LeaseSoft marketing, are targeted by NetSol Technologies from its Lahore subsidiary and its offices in Beijing, China. NetSol (Pvt) Ltd. has continued to grow its service contracts within the local Pakistani public and defense sectors. An important aspect of these contracts is that not all of them focused solely on software development and engineering. This year, NetSol has gone a step further by providing both consultancy services to organizations so as to improve their quality of operations and services and, wining strategically important

assignments with the E-Governance domains for organizations of national significance in Pakistan including, but not limited to, the Prime Minister's office and the lower and upper houses of Parliament. These clients include private as well as public sector enterprises. In response, NetSol Pakistan has created a new division known as NDD - NetSol Defense Division in Islamabad. This division is headed by a retired IT focused Brigadier General and designed to create new contracts from Pakistan Ministry of Defense. There is a sizable budget allocated by the government of Pakistan to automate and use new technologies and systems. NetSol is in a sound position to win these high ticketed projects. This department includes 12 key personnel who have made some major progress in building new alliances and collaborations. They expect to see the results of these efforts in the next few quarters.

PLAN OF OPERATIONS

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

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

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

- Enhance Software Design, Engineering and Service Delivery Capabilities by increasing investment in training.
- Continue to invest in Research and Development in an amount between 7-10% of yearly budgets in financial, banking and various other domains within NetSol's core competencies.
- Recruit new sales personnel in US to grow the penetration in North American markets.
- Aggressively exploit the booming Chinese market and continue to exploit NetSol's presence in China.
- Increase Capex, to enhance Communications and Development Infrastructure. Roll out a second phase of construction of technology Campus in Lahore to respond to a growth of new orders and customers.
- Market aggressively on a regional basis the Company's tri-product solutions by broader marketing efforts for LeaseSoft in Asia Pacific and untapped markets, aggressively grow LeasePak solutions in North America and further establish NetSol CQ Enterprise solution in the European markets.
- Expand the outsourcing model of TIG JV and tap in the biggest markets in the North America and Europe by replicating the success of NetSol TIG.
- Continued integration of NetSol-CQ and McCue Systems. Migrate work load gradually from CQ and McCue to NetSol Pakistan which will eventually improve gross margins and productivity per employee.

Top Line Growth through Investment in organic marketing activities:

The Company has created the new position of Global Marketing Vice President. This position, based in the U.S. office, centralizes all branding, market positioning and image building through a delineated hierarchy. This new Vice President, Mr. Andrew Lea, is to interact and coordinate all global marketing activities for NetSol combined with McCue and NetSol-CQ to ultimately create a 'one look and done' theme to the NetSol image and company. NetSol marketing activities will continue to:

- Expand the marketing and distribution of regional products solutions in four continents: North America, Europe, Asia Pacific and Africa.
- Expand and deepen relationships with key customers in the US, Europe and Asia Pacific by offering enhanced product offerings.
- Product Positioning through alliances and partnership.
- Capitalize on NetSol McCue and NetSol-CQ affiliations with ELA (Equipment Leasing Association of N.A) and European leasing forums.
- Induct some very well known corporate leaders as consultants (2-3) in the US to tap into some new verticals and major new customer base.
- Joint Ventures and new alliances.
- Direct Marketing of Services.
- Explore new diversified opportunities in the areas of Business process Outsourcing.
- Hold frequent users group meetings in North America and Asia Pacific and customers road shows to attract bigger value new contracts.

Funding and Investor Relations:

- Adequately capitalize NetSol to face challenges and opportunities presented through the most economical means and vehicles creating further stability and sustainability.
- Aggressive marketing campaign on Wall Street to get the story of NetSol known to retail, institutions, micro cap funds and analysts.
- Attract long term institutional investors and partners both in the US and in Asia.
- Infuse new capital from potential exercise of outstanding investors' warrants and employees' options for business development and enhancement of infrastructures.
- Continuing to efficiently and prudently manage cash flow and budgets.
- Expose NetSol to various small cap and technology investors' forum across North America.
- Pursue a revised marketing, investor relations, and public relations strategy in 2007 to create stronger valuations and broad based market exposure.

Improving the Bottom Line:

- Consolidate subsidiaries and integrate and combine entities to reduce overheads and employ economies of scale
- Continue to review costs at every level to consolidate and enhance operating efficiencies.
- Grow process automation and leverage the best practices of CMMI level 5.
- Create 3 new geographic regions: North America, Europe and Asia Pacific to leverage the infrastructure and resources and to drive direct ownership based on revenue and the bottom line. Also break the company's business in two business groups: Global Product Group and Global Services Group.
- More local empowerment and P&L Ownership in each Country Office.
- Improve productivity at the development facility and business development activities.
- Cost efficient management of every operation and continue further consolidation to improve bottom line.
- Senior management compensation not to change at least through fiscal year 2007.
- Initiated steps to consolidate some of the new lines of services businesses to improve bottom line.

Management continues to be focused on building its delivery capability and has achieved key milestones in that respect. Key projects are being delivered on time and on budget, quality initiatives are succeeding, especially in maturing internal processes. Management believes that further leverage was provided by the development 'engine' of NetSol, which became CMMI Level 2 in early 2002. In a quest to continuously improve its quality standards, NetSol reached CMMI Level 4 assessment in December 2004. According to the website of SEI of Carnegie Mellon University, USA, only a few software companies in the world have announced their assessment of level 4. Now, as a result of achieving CMMI level 5 on August 11, this year, the Company is expecting a growing demand for its products and alliances from blue chip companies worldwide. NetSol plans to further enhance its capabilities by creating similar development engines in other Southeast Asian countries with CMMI levels quality standards. This would make NetSol much more competitive in the industry and provide the capabilities for development in multiple locations. Increases in the number of development locations with these CMMI levels of quality standards will provide customers with options and flexibility based on costs and broader access to skills and technology.

MATERIAL TRENDS AFFECTING NETSOL

NetSol has identified the following material trends affecting NetSol

Positive trends:

- Outsourcing of services and software development is growing worldwide.
- The Leasing & Finance industry in North America has increased $260 billion and about the same size for the rest of world.
- Recent outpouring of very positive US press and research coverage by major banks such as Lehman Bros on Pakistan outlook and NetSol growing image and name.
- The influx of US companies and investors in addition to investors from all other parts of world to Pakistan.
- The levy of Indian IT sector excise tax of 35% (NASSCOM) on software exports is very positive for NetSol. In Pakistan there is a 15 years tax holiday on IT exports of services. There are 10 more years remaining on this tax incentive.
- Cost arbitrage, labor costs still very competitive and attractive when compared with India.
- Overall economic expansion worldwide and explosive growth in the merging markets specifically.
- Continuous improvement of US and Indian relationships with Pakistan
- Economic turnaround in Pakistan including: a steady increase in gross domestic product; much stronger dollar reserves, which is at an all time high of over $13 billion; stabilizing reforms of government and financial institutions; improved credit ratings in the western markets, and elimination of corruption at the highest level.
- Robust growth in outsourcing globally and investment of major US and European corporations in the developing countries. As demonstrated by the recently published book 'World is Flat' by Tom Friedman, there is a need for

western companies to expand their businesses in emerging markets. Both Pakistan and China are in forefront.

- Chinese economic boom leading to new market opportunities.

Negative trends:

- The disturbance in Middle East and rising terrorist activities post 9/11 worldwide have resulted in issuance of travel advisory in some of the most opportunistic markets. In addition, travel restrictions and new immigration laws provide delays and limitations on business travel.
- Negative perception and image created by extremism and terrorism in the South Asian region.
- Skyrocketing oil prices and unfortunate affects of Hurricane Katrina on US economy.
- Continuous impact of Iraq war on US and global economy.

CRITICAL ACCOUNTING POLICIES

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

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS

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

INCOME TAXES

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets generated by the Company or any of its subsidiaries are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets resulting from the net operating losses are reduced in part by a valuation allowance. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based upon historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. During the fiscal years ended June 30, 2006 and 2005, we estimated the allowance on net deferred tax assets to be one hundred percent of the net deferred tax assets

CHANGES IN FINANCIAL CONDITION

Quarter Ended September 30, 2006 as compared to the Quarter Ended September 30, 2005:

Net revenues for the quarter ended September 30, 2006 were $5,862,560 as compared to $4,469,985 for the quarter ended September 30, 2005. Net revenues are broken out among the subsidiaries as follows:

	2006	2005
North America:		
Netsol USA	$ -	$ -
McCue	1,303,026	-
	1,303,026	-
Europe:		
Netsol UK	2,476	238,672
Netsol - CQ	1,485,859	1,406,011
	1,488,335	1,644,683
Asia - Pacific:		
Netsol Tech	2,256,819	2,139,537
Netsol Connect	206,753	252,337
Netsol-TiG	505,334	345,705
Netsol - Omni	18,145	-
Netsol-Abraxas Australia	84,148	87,723
	3,071,199	2,825,302
Total Net Revenues	$ 5,862,560	$ 4,469,985

This reflects an increase of $1,392,575 or 31% in the current quarter as compared to the quarter ended September 30, 2005. The increase is attributable mostly to growth in services business, a full quarter of revenues attributed by the newly acquired McCue Systems in the USA, growing outsourcing business of NetSol-TIG (JV) and additional maintenance work. In addition, several new business divisions were formed the latter part of last year in Lahore. The Company has experienced solid and consistent demand for IT services in the domestic sectors of Pakistan. The Company had hoped to close at least two major service contracts in Pakistan (with an approximate value of $3 million). This is now expected to occur in within the next two quarters.

The activities for NetSol new license sales - LeaseSoft is increasingly on the rise. The current pipeline boasts over 20 plus captive auto manufacturers globally at an advance stage of closing or decision making.

NetSol made a significant move by acquiring the US based software company, McCue Systems Ltd., in June 2006. The acquisition of McCue Systems has provided NetSol a very strong and seasoned management team with a mature, profitable, business with business in the United States.

The Company added a few major new customers such as DaimlerChrysler in China, Japan, and New Zealand and Toyota Leasing Thailand and China. In addition, many new customers were added in Pakistan in both the public and private sectors. In addition, McCue Systems added Hyundai Motor Financial.

NetSol's global frame agreement with DaimlerChrysler Services ("DCS") qualifies NetSol as a preferred vendor to DCS in 40 plus countries where DCS operates. As a direct result of the successful implementations of some of our current systems with DaimlerChrysler and the signing of the global frame agreement, we are noticing a significant increase in demand for LeaseSoft. Although the sales cycle for LeaseSoft is rather long, we are experiencing a 100% increase in product demonstration, evaluation and assessment by blue chip companies in the UK, Australia, Japan, Europe, North America and Pakistan. In fiscal year 2005, NetSol raised the pricing of its LeaseSoft licenses significantly due

primarily to a surge in demand.

A number of large leasing companies will be looking to renew legacy applications. This places NetSol in a very strong position to capitalize on any upturn in IT spending by these companies. NetSol is well positioned to sell several new licenses in fiscal year 2006 that could potentially increase the sales and bottom line. As the Company sells more of these licenses, management believes it is possible that the margins could increase to upward of 70%. The license prices of these products vary from $300,000 to an excess of $1,000,000 with additional charges for customization and maintenance of between 20%-30% each year.

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

- BI Consulting: a consulting division with the initial objective of targeting the banking industry. The implementation of the new International Basel II Accord by local banks has created a huge demand for solutions that allow banks to accurately quantify their risks of incurring losses. This is a predictive capability offered by business intelligence software; and, for that purpose we've aligned ourselves with the largest financial services software company, SunGard, which is also among the top ten software companies globally.
- Information Security (INFOSEC): in recognition of the ever growing awareness of highly publicized IT Security problems, NetSol has established a new business unit**.** The unit will provide services to secure all corporate information and their supporting processes, systems and networks. INFOSEC is designed to ensure *"The right information to the right people at the right time"*. NetSol is partnering with a recognized global leader in information security (ISS - Internet Security Systems) to execute this business plan.
- Defense Division: in light of our coordination with the Pakistan Defense Sector, NetSol established its very own Defense Division to cater specifically to the growing demands in this domain, and to deliver services with the professionalism and reliability that epitomizes NetSol's CMMi Level 5 standing.
- Enterprise Business Solutions (EBS): due to the dynamic nature of the business environment and the increasing demand for operational efficiency in today's world, NetSol has built its own Enterprise Business Solutions (EBS) division partnering with Oracle and DataStream. With EBS, NetSol gives companies the ability to manage, maintain and track assets, plus the ability to use this data to drive decision-making in areas such as Maintenance, Inventory, Warranty, Up-time Reliability & Risk Management.

The gross profit was $3,051,000 in the quarter ending September 30, 2006 as compared with $2,802,635 for the same quarter of the previous year for an increase of $248,365. The gross profit percentage for the quarter decreased approximately 11% to 54% from 63% in the quarter ended September 30, 2005. The cost of sales was $2,811,560 in the current quarter compared to $1,667,350 in the prior quarter ended September 30, 2005. This is mainly due to the additional costs added from the acquisition of McCue Systems.

Operating expenses were $3,210,207 for the quarter ending September 30, 2006 as compared to $2,130,429, for the corresponding period last year. The increase is mainly attributable to increased selling and marketing activities, additional employees and an increase in overall activities due to our increased marketing efforts and the additional costs added from the acquisition of McCue Systems. Depreciation and amortization expense amounted to $488,643 and $552,531 for the quarter ended September 30, 2006 and 2005, respectively, reflecting the intangible assets purchased from the CQ Systems acquisition in February 2005 and the McCue acquisition in June 2006; as well as some of the intangibles fully amortized as of June 30, 2006. Combined salaries and wage costs were $1,050,106 and $536,376 for the comparable periods, respectively, or an increase of $513,730 from the corresponding period last year. As a percentage of sales, these costs only increased 6% to 18% from 12%. The addition of the new subsidiary, McCue Systems, as well as an increase in development, sales and administration employees, resulted in the increase. Approximately 100 new employees were added throughout the Company during the last fiscal year. General and administrative expenses were $975,843 and $583,547 for the quarters ended September 30, 2006 and 2005, respectively, an increase of $392,296 or 67%. As a percentage of sales, these expenses were 16.65% in the current quarter compared to 13.05% in the comparable quarter. This increase is due to the addition of the new subsidiary, McCue Systems, three new sales offices in Pakistan, the sales office in China, increased board fees, increased travel and other expenses that supporting a large workforce entails.

Selling and marketing expenses were $351,802 and $318,864, in the quarter ended September 30, 2006 and 2005, respectively, reflecting the growing sales activity of the Company. Professional services expense increased to $278,005 in the quarter ended September 30, 2006, from $139,111 in the corresponding period last year.

Loss from operations was $159,207 compared to income of $672,206 for the quarters ended September 30, 2006 and 2005, respectively. This represents a decrease of $831,413 for the quarter compared with the comparable period in the prior year.

Net loss was $1,295,964 compared to net income of $203,745 for the quarters ended September 30, 2006 and 2005, respectively. This is a decrease of $1,499,709 compared to the prior year. The current fiscal quarter amount includes a net reduction of $247,273 compared to $367,213 in the prior period for the 49.9% minority interest in NetSol Connect, NetSol-TiG, and NetSol-Omni owned by another party, and the 28.13% minority interest in NetSol PK. During the current quarter, the Company also recognized an expense of $0 compared to $6,569 for the beneficial conversion feature on convertible debentures, an expense of $0 compared to $9,489 for the fair market value of warrants issued. In addition, in the current quarter, the Company recognized $734,659 of amortized costs of debt. Interest expense was $249,790 in the current quarter as compared to $79,023 in the comparable period. This is primarily due to the interest due on the convertible notes payable. Net loss per share, basic and diluted, was $0.08 as compared to net income per share, basic and diluted of $0.01 for the quarters ended September 30, 2006 and 2005.

The net EBITDA loss was $342,188 compared to income of $1,020,075 after amortization and depreciation charges of $651,162 and $675,199, income taxes of $52,824 and $62,108, and interest expense of $249,790 and $79,023, respectively. Although the net EBITDA income is a non-GAAP measure of performance we are providing it for the benefit of our investors and shareholders to assist them in their decision-making process. With the addition of the non-cash charge for the amortized costs of debt of $616,034 the adjusted income would be $273,846 for the quarter ended September 30,2006.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position was $3,822,420 at September 30, 2006 compared to $1,469,154 at September 30, 2005.

Net cash used for operating activities amounted to $4,705,583 for the quarter ended September 30, 2006, as compared to $1,106,844 for the comparable period last fiscal year. The decrease is mainly due to a decrease in prepaid expenses, other assets, accounts payable and the other payable - acquisitions.

Net cash provided by investing activities amounted to $940,449 for the quarter ended September 30, 2006, as compared to used $3,220,571 for the comparable period last fiscal year. The Company had net purchases of property and equipment of $213,770 compared to $726,630 for the comparable period last fiscal year.

Net cash provided by financing activities amounted to $5,103,746 and $4,410,299 for the quarters ended September 30, 2006, and 2005, respectively. The quarter ended September 30, 2005 included the cash inflow of $0 compared to $288,062 from the exercising of stock options and warrants. In the current fiscal period, the Company had net proceeds on loans and capital leases of $237,702 as compared to net proceeds of $91,236 in the comparable period last year and received $165,000 in loans from officers during the current fiscal quarter. In addition, in the prior year, the Company received net proceeds of $4,031,001 from the sale of a subsidiary's common stock in an IPO on the Karachi Stock Exchange.

The Company plans on pursuing various and feasible means of raising new funding to expand its infrastructure, enhance product offerings and beef up marketing and sales activities in strategic markets. The strong growth in earnings and the signing of larger contracts with Fortune 500 customers largely depends on the financial strength of NetSol. Generally, the bigger name clients and new prospects diligently analyze and take into consideration a stronger balance sheet before awarding big projects to vendors. Therefore, NetSol would continue its effort to further enhance its financial resources in order to continue to attract large name customers and big value contracts. Management feels that a major requirement of institutional investors is a much stronger balance sheet and a healthy cash position.

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

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

- The second payment of McCue Systems would be due based on the formula of 'earn out'. This could be in the range of $1.0MN to $2.0MN in cash and common stock;

- Notes payable and related interest for approximately $528,500
- Interest payable on convertible notes and debentures of approximately $350,000
- Dividend payable on preferred stock of approximately $355,000
- Working capital of $1.0 million for UK business expansion, new business development activities and infrastructure enhancements.

While there is no guarantee that any of these methods will result in raising sufficient funds to meet our capital needs or that even if available will be on terms acceptable to the Company, we will consider raising capital through equity based financing and, warrant and option exercises. We would, however, use some of our internal cash flow to meet certain obligations as mentioned above.

The methods of raising funds for capital needs may differ based on the following:

- Stock volatility due to market conditions in general and NetSol stock performance in particular. This may cause a shift in our approach to raise new capital through other sources such as secured long term debt.

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

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

Item 3. Controls and Procedures

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

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities.

In July 2006, we issued 930,781 shares of common stock to the former shareholders of McCue Systems, Inc as the part of the consideration due to such shareholders as part of the acquisition of the shares of McCue Systems, Inc. which closed on June 30, 2006. The issuance was made in reliance on an exemption from registration available under rule 506 of Regulation D of the Securities Act of 1933, as amended (the “Act”).

In July 2006, we issued a total of 15,000 shares to 3 directors of the Company as compensation for board service during the July 2005 to June 2006 period. Two of these directors are accredited U.S. residents and the issuance to them was made in reliance on an exemption from registration under Section 4(2) of the Act. One of the directors is an accredited non-U.S. resident and the issuance to him was made in reliance on an exemption from registration available under Regulation S of the Act.

In July 2006, we issued 3,841 shares to a consultant of the Company as compensation for service rendered. The issuance to this consultant was made in reliance on an exemption from registration under Section 4(2) of the Act.

Item 3. Defaults Upon Senior Securities

None.

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

None

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

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

Reports on Form 8-K.

a) On July 5, 2006, NetSol Technologies, Inc. filed a current report on form 8-K stating that it had completed effective June 30, 2006, the acquisition of McCue Systems, Inc.

b) On July 24, 20065, NetSol Technologies, Inc. filed an amendment to the current report on form 8-K filed on July 5, 2006 to include the required financial information for McCue Systems, Inc. and pro forma information for the Company.

c) On September 11, 2006, NetSol Technologies, Inc. filed a current report on form 8-K reporting its financial guidance for the year ended June 30, 2007

d) On September 25, 2006, NetSol Technologies filed a current report on form 8-K reporting that it had issued a press release announcing its results of operations for the period ending June 30, 2006.

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, 2006

/s/ Najeeb Ghauri

NAJEEB GHAURI
Chief Executive Officer

Date: November 14, 2006

By: /s/ Tina Gilger

TINA GILGER
Chief Financial Officer