FULLER EDWIN D
Form 4
February 04, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
FULLER EDWIN D

(Last) (First) (Middle)

10400 FERNWOOD ROAD

(Street)

BETHESDA, MD 20817

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MARRIOTT INTERNATIONAL INC /MD/ [MAR]

3. Date of Earliest Transaction (Month/Day/Year)
02/02/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP: Pres. Intl. Lodging

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Common Stock	02/02/2005		J(1)		1,399	A	$ 0	4,226	D	
Class A Common Stock - Restricted	02/02/2005		J(1)		1,399	D	$ 0	6,308	D	
Class A Common Stock - Restricted	02/02/2005		F		803	D	$ 63.44	5,505	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
FULLER EDWIN D 10400 FERNWOOD ROAD BETHESDA, MD 20817			VP: Pres. Intl. Lodging	

Signatures

By: Dorothy M. Ingalls, Attorney-In-Fact for	02/04/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Release of Restricted Stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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	$		-
E&O Insurance	28,518	28,518	-
Habib Bank Line of Credit	1,501,998	1,501,998	-
Bank Overdraft Facility	84,952	84,952	-
HSBC Loan	739,428	327,820	411,608
Subsidiary Capital Leases	627,621	295,314	332,307
	$ 3,024,025	$ 2,280,110	$ 743,915

Name		Balance at 6/30/07		Current Maturities		Long-Term Maturities
D&O Insurance	$	66,207	$	66,207	$	-
Professional Liability Ins		641		641		-
Noon Group		565,045		565,045		-
Subsidiary Capital Leases		594,964		255,205		339,759
	$	1,226,857	$	887,098	$	339,759

Name		Balance at 6/30/06		Current Maturities		Long-Term Maturities
D&O Insurance	$	74,889	$	74,889	$	-
Professional Liability Ins		668		668		-
Noon Group		516,295		516,295		-
A. Zaman Settlement		16,300		16,300		-
Subsidiary Capital Leases		343,951		160,783		183,168
	$	952,103	$	768,935	$	183,168

In June 2002, the Company signed a settlement agreement with a former consultant for payment of past services rendered. The Company agreed to pay the consultant a total of $75,000. The agreement calls for monthly payments of $1,500 per month until paid. As of June 30, 2006, the balance was $16,300. The entire balance has been classified as a current liability in the accompanying consolidated financial statements. In July 2006, the balance was paid in full.

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. During the fiscal year ended June 30, 2006, $48,750 of accrued interest was recorded for this loan. In March, 2006, the note was extended for another year. In April 2006, $51,250 of accrued interest was paid. Total unpaid accrued interest at June 30, 2006 was $16,295. During the fiscal year ended June 30, 2007, $48,750 of accrued interest was recorded for this loan. In April 2006, $51,250 of accrued interest was paid. Total unpaid accrued interest at June 30, 2006 was $65,044. In July 2007, the full principle and interest were paid.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On July 4, 2007, the Company entered into a debt agreement with AMZ, a brokerage firm, in Lahore, Pakistan for a total of $2,457,642. AMZ brokered the loan with 2 banks in Pakistan, Bank Islami Pakistan Ltd, and Security Leasing Corporation Ltd. The loan called for 30% of the value of the loan to be collateralized by shares the Company owns in its Pakistan subsidiary, NetSol PK, plus an additional 10% of the total share pledged to cover any extra margin due to the change in value of the pledged shares. Finance costs associated with this debt totaled $39,445 and the Company received a net balance of $2,418,197. The loan had a maturity of three months and an interest rate 18.35%, consisting of the Karachi Interbank Offer Rate ("KIBOR" of 9.09%, a base rate of 4.26%, and a mark-up rate of 5%. On October 4, 2007, the loan matured and was rolled over for an additional three months. The new interest rate was 14.75%. Upon maturity on January 4, 2008, payment of the note and accrued interest was extended for six weeks. On February 16, 2008, the full balance of the loan and accrued interest of $256,608 was paid. All pledged shares were returned to the Company.

In August 2007, the Company's subsidiary, NetSol UK, entered into an agreement with HSBC Bank whereby the line of credit outstanding of £500,000 or approximately $1,023,850 was converted into a loan payable with a maturity of three years. The interest rate is 7.5% with monthly payments of £15,558 or approximately $31,858. The Parent has guaranteed payment of the loan in the event the subsidiary should default on it. During the year ended June 30, 2008, £155,585 or approximately $307,384 was paid on the principal of this note and £27,784 or approximately $52,310 was paid in interest. The loan outstanding as of June 30, 2008 was £370,567 or $739,428; of this amount $327,820 is classified as current maturities and $411,608 as long-term debt.

In January 2008, the Company renewed its directors' and officers' ("D&O") liability insurance for which the annual premium is $102,585. The Company arranged financing with AFCO Credit Corporation with a down payment of $10,584 with the balance to be paid in nine monthly installments of $10,584 each. The balance owing as of June 30, 2008 was $41,508. In January 2007, the Company renewed its directors and officers' liability insurance for which the annual premium is $163,620. In January 2007, the Company arranged financing with AFCO Credit Corporation with a down payment of $16,784 with the balance to be paid in nine monthly installments of $16,784 each. The balance owing as of June 30, 2007 was $66,207. 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 June 30, 2006 was $74,889.

In January 2008, the Company purchased an Errors and Omissions ("E&O") liability insurance for an annual premium of $69,783. The Company arranged financing with AFCO Credit Corporation with a down payment of $7,213 with the balance to be paid in nine monthly installments of $7,213 each. The balance owing as of June 30, 2008 was $28,518.

In April 2008, the Company entered into an agreement with Habib American Bank to secure a line of credit to be collateralized by Certificates of Deposit held at the bank. During the year ended June 30, 2008, $1,510,595 was drawn down on this line of credit and $12,629 was repaid. The interest rate on this account is variable and was 4.571% at June 30, 2008. Interest paid during the year ended June 30, 2008 was $4,032 and the balance was $1,501,998.

During the year ended June 30, 2008, the Company's subsidiary, NTE, entered into an overdraft facility with HSBC Bank plc whereby the bank would cover any overdrafts up to £200,000. The interest rate is 3.25% per year over the Bank's sterling Base Rate, which is currently 5%, for an effective rate of 8.25%. As of June 30, 2008, the subsidiary had used £42,574 or approximately $84,952.

Explanation of Responses:

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL LEASE OBLIGATIONS

The Company leases various fixed assets under capital lease arrangements expiring in various years through 2013. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lesser of their related lease terms or their estimated useful lives and are secured by the assets themselves. Depreciation of assets under capital leases is included in depreciation expense for the years ended June 30, 2008, 2007, and 2006.

Following is the aggregate minimum future lease payments under capital leases as of June 30, 2008:

Minimum Lease Payments	
Due FYE 6/30/09	$ 368,671
Due FYE 6/30/10	258,927
Due FYE 6/30/11	113,053
Due FYE 6/30/12	6,135
Due FYE 6/30/13	3,356
Total Minimum Lease Payments	750,142
Interest Expense relating to future periods	(122,521)
Present Value of minimum lease payments	627,621
Less: Current portion	(295,314)
Non-Current portion	$ 332,307

Following is a summary of fixed assets held under capital leases:

	As of 6/30/08	As of 6/30/07	As of 6/30/06
Computer Equipment and Software	$ 895,235	$ 661,647	$ 337,381
Furniture and Fixtures	62,054	50,007	64,340
Vehicles	392,727	458,839	306,720
Building Equipment	161,295	150,666	152,164
Total	1,511,311	1,321,159	860,605
Less: Accumulated Depreciation	(653,643)	(508,294)	(407,281)
Net	$ 857,668	$ 812,865	$ 453,324

B) LOANS PAYABLE - BANK

The Company’s Pakistan subsidiary, NetSol Technologies (Private) Ltd., has a loan with a bank, secured by the Company’s assets. This note consists of the following:

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2008:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE		BALANCE USD
Export Refinance	Every 6 months	7.50%	$	2,932,551
Total			$	2,932,551

For the year ended June 30, 2007:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE		BALANCE USD
Export Refinance	Every 6 months	7.5%	$	1,968,827
Running Finance	On demand	12.0%		123,050
Total			$	2,091,877

For the year ended June 30, 2006:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE		BALANCE USD
Export Refinance	Every 6 months	9%	$	662,800
Total			$	662,800

The Company's subsidiary, NetSol UK, has a line of credit with HSBC Bank. Interest rate charged on amounts drawn-down is 1.75% over base rate. At June 30, 2007 this rate was 5.5%. As of June 30, 2007, the line of credit balance was £502,046 or $1,006,051. In July 2007, this line of credit was converted into a term loan.

Total loans payable - bank at June 30, 2007 was $3,097,928.

C) OTHER PAYABLE - ACQUISITION

As of June 30, 2008 and 2007, Other Payable - Acquisition consists of total payments of $846,215, and $962,406 due to the shareholders of McCue Systems. As of June 30, 2006, Other Payable - Acquisition consists of total payments of $4,086,204 due to the shareholders of CQ Systems and McCue Systems.

<u>CQ System (now NetSol Technologies Europe Ltd.)</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 shareholders of CQ Systems. As of June 30, 2006, a payable to 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 is shown as "Other Payable - Acquisition" in these consolidated financial statements. In July 2006, the cash was paid to the shareholders.

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

McCue Systems (now NetSol Technologies North America Inc.)

On June 30, 2006, the acquisition with McCue Systems, Inc. (“McCue”) closed (see Note 20). 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. During the fiscal year ended June 30, 2007, $2,059,413 of the cash portion of was paid to the McCue shareholders and in July 2006 the stock was issued. In June 2007, the second installment on the acquisition consisting of $903,955 in cash and 408,988 shares of the Company’s restricted common stock became due and was recorded. In July and August 2007, $879,007 of the cash was paid. In June 2008, the third and final installment became due, consisting of $762,816 in cash and 345,131 shares of the Company’s restricted common stock. The cash portion is shown as “Other Payable – Acquisition” and the stock portion is shown in “Shares to be issued” on these consolidated financial statements. The balance at June 30, 2008 was $846,215. Of this amount, $104,452 represents the few remaining McCue shareholders that have not been located as of the date of this report. The shares were issued on July 3, 2008 and the cash due was paid in July and August 2008.

D) DUE TO OFFICERS

The officers of the Company, from time to time, loan funds to the Company.

During the fiscal year ended June 30, 2006, one of the officers had deferred the increase in his wages. During the fiscal year ended June 30, 2006, $50,000 of accrued wages was added to the balance due to officers and $34,574 was remitted to one officer against the amounts owing to him. In addition, $7,500 was paid to another officer against amounts owed to him. In addition, one subsidiary had $35,205 due to an officer of the subsidiary. The balance owing as of June 30, 2006 was $90,767.

During the fiscal year ended June 30, 2007, $43,750 of accrued wages was added to the balance due to officers and $62,458 was remitted to one officer against the amounts owing to him. In addition, the board of directors authorized a bonus in the amount of $50,000 each to the three founding officers for recognition of past service and the growth in the Company. During the quarter ended March 31, 2007, the officers used the bonus to exercise options. In addition, one subsidiary had $4,567 due to an officer of the subsidiary. The balance due to officers as of June 30, 2007 was $356,422

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 had a maturity date of three months and is interest free and had been automatically extended. The terms of the loan were approved by the Company’s board of directors. The balance of this loan was repaid in July 2007.

In addition, the officers of the Company have advanced $34,173 as working capital. The balance due to officers as of June 30, 2008 was $184,173.

In July 2008, the officers exercised 98,358 options against the amounts owed to them of $179,738.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – DIVIDEND PAYABLE

PREFERRED SHAREHOLDERS

On October 30, 2006, the convertible notes payable (see note 12) were converted into 5,500 shares of Series A 7% Cumulative Convertible Preferred Stock. The dividend is to be paid quarterly, either in cash or stock at the Company's election. The dividend for the fiscal years ended June 30, 2008 and 2007 totaled $178,541 and $237,326. Of the amount due for fiscal years ended June 30, 2008 and 2007, $145,033 and $159,686 has been paid in stock and the remaining balance of $33,508 and $77,640 is payable and is reflected in these consolidated financial statements. The amount due as of June 30, 2008 was paid with the issuance of 13,107 shares of the Company's common stock on July 3, 2008.

SUBSIDIARY DIVIDEND

On September 26, 2007, the Company's joint-venture subsidiary, NetSol-Innovation declared a cash dividend of 100,000,000 Pakistan Rupees ("pkr") or approximately $1,651,522. Of this amount, the Company was due 50,520,000 pkr or approximately $834,349. The dividend was paid during the quarter ended December 31, 2007. The amount attributable to the minority holders is approximately $817,173.

NOTE 12 – CONVERTIBLE NOTE PAYABLE

On June 15, 2006, the Company entered into an agreement with five accredited investors whereby the Company issued five convertible notes payable for an aggregate principal value of $5,500,000. These notes bore interest at the rate of 12% per annum and were due in full one year from the issuance date or on June 15, 2007 (the "Financing"). The Convertible Notes could have immediately converted 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 did not violate Nasdaq Market Place rules. Due to the limitation rule, none of the note was 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 would be immediately converted into shares of Preferred Stock. On October 18, 2006, the shareholders approved the issuance of 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 principal of the notes. During the fiscal year ended June 30, 2007, $251,167 of interest was accrued. On December 13, 2006, the note holders agreed to accept shares of the Company's common stock in payment of the interest owed to them. In addition, the note holders required the Company to issue a total of 60,000 shares of the Company's common stock valued at $88,201 as a premium to receive payment in shares rather than cash. This amount is included in "interest expense" in the accompanying consolidated financial statements for the year ended June 30, 2007.

The beneficial conversion feature expense was based on the net value of the loan after reducing the proceeds by the value of the warrants issued and was $2,208,334 for the year ended June 30, 2007.

The common stock shares issued under this financing agreement, including warrants, were to be registered within 120 days after closing (or October 19, 2006). If the Company did not meet the registration requirement, the Company was to 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. The registration statement became effective on January 19, 2007. During the fiscal year ended June 30, 2007, the Company accrued $168,667 as liquidation damages due and has paid the full amount. As a result, the Company recorded an additional $12,223 in liquidation damages during the fiscal year ended June 30, 2007. This amount is included in “Accrued Liabilities” as of June 30, 2008.

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 were capitalized as a contra-account against the note balance. These costs were being amortized over the life of the loan or a pro-rata basis as the loan was converted into common or preferred stock. As the loans were converted on October 30, 2006, the balance of $2,022,363 was amortized and recorded as "amortization of debt discount" for the year ended June 30, 2007.

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%

Under the agreement, any future financing whereby warrants are issued at an exercise price lower than the exercise price of the warrants in the agreement, an adjustment to the exercise price is to be made. During the fiscal year ended June 30, 2007, a financing was completed which included the issuance of warrants at an exercise price of $1.65. Following the formula set out in the agreement, it was determined that the adjusted exercise price was $1.93 per share. As a result, the Company revalued the warrants for the adjusted exercise price using the Black-Scholes model at $2,120,000 and recorded an expense of $11,667 for the repricing of the warrants during the year ended June 30, 2007. The Black-Scholes pricing model used the same assumptions as for the original valuation of the warrants.

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. As the loans were converted on October 30, 2006, the balance of $454,729 of these costs were amortized and recorded as "amortization of capitalized cost of debt" during the year ended June 30, 2007.

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 its 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 were capitalized. These costs were being amortized over the life of the loan or a pro-rata basis as the loan was converted into common or preferred stock. As the loans were converted on October 30, 2006, the balance of $326,599 of these costs were amortized and recorded as "amortization of capitalized cost of debt" during the year ended June 30, 2007.

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%

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – 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 fiscal year ended June 30, 2006, three of the convertible debenture holders elected to convert their notes into common stock. As part of the conversion, warrants to purchase a total of 40,323 common shares were issued to the note holders. The warrants were valued using the fair value method at $21,505 and was recorded as an expense in the accompanying consolidated financial statements for the fiscal year ended June 30, 2006.

NOTE 14 – STOCKHOLDERS’ EQUITY - RESTATED

PREFERRED STOCK

On October 30, 2006, the convertible notes payable (see note 12) were converted into 5,500 shares of Series A 7% Cumulative Convertible Preferred Stock. The preferred shares are valued at $1,000 per share or $5,500,000. The preferred shares are convertible into common stock at a rate of $1.65 per common share. The total shares of common stock that can be issued under these Series A Preferred Stock is 3,333,333. On January 19, 2007, the Form S-3 statement to register the underlying common stock and related dividends became effective. As of June 30, 2008 and 2007, 2,210 and 1,370 of the preferred shares had been converted into 1,339,392 and 830,302 shares of the Company’s common stock, respectively. As of June 30, 2008 and 2007, there were 1,920 and 4,130 shares of preferred stock outstanding.

The Series A Convertible Preferred Stock carries certain liquidation and preferential rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, before any distribution of assets of the Corporation can be made to or set apart for the holders of Common Stock, the holders of Convertible Preferred Stock shall be entitled to receive payment out of such assets of the Corporation in an amount equal to $1,000 per share of Convertible Preferred Stock then outstanding, plus any accumulated and unpaid dividends thereon (whether or not earned or declared) on the Convertible Preferred Stock. In addition, the Convertible Preferred Stock ranks senior to all classes and series of Common Stock and existing preferred stock and to each other class or series of preferred stock established hereafter by the Board of Directors of the Corporation, with respect to dividend rights, redemption rights, rights on liquidation, winding-up and dissolution and all other rights in any manner, whether voluntary or involuntary.

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Combinations:

CQ Systems, Inc. (now NetSol Technologies Europe Ltd.)

In February 2005, the Company completed the acquisition of CQ Systems, (see Note 19). As part of this agreement, the Company issued 759,468 shares of its restricted common stock valued at $1,816,301 to the shareholders of CQ Systems.

In June 2006, the final installment was due for the acquisition and the Company issued 884,535 shares of its restricted common stock valued at $1,848,680 to the shareholders of CQ Systems.

McCue Systems, Inc. (now NetSol Technologies North America Inc.)

In June 2006, the Company completed the acquisition of McCue Systems, Inc. (see Note 20). During fiscal year ended June 30, 2007 as part of this agreement, the Company issued 931,770 shares of its restricted common stock valued at $1,584,009 to the shareholders of McCue Systems for the initial down payment.

In June 2007, the second installment became due for the acquisition and the Company issued 397,700 shares of its restricted common stock valued at $711,640 to the shareholders of McCue Systems. In addition, a total of 37,731 shares valued at $64,612 are shown in "Shares to Be Issued" in these consolidated financial statements representing McCue Systems shareholders that have not been located as of this date.

In June 2008, the third and final installment became due for the acquisition and the Company recorded 345,131 shares to be issued valued at $890,437 on these consolidated financial statements. Of these, 335,604 shares were issued in July 2008. The balance represents McCue Systems shareholders that have not been located as of this date.

NetSol Omni ("Omni")

In December 2007, the Company entered into an agreement with the minority shareholders of Omni, whereby the Company purchased the remaining 49.9% of Omni for 25,000 shares of the Company's common stock valued at $76,750.

Private Placements

In January 2006, the Company sold 933,334 shares of the Company's common stock for $1,400,000 in a private placement.

In June 2007, the Company sold 757,576 shares of the Company's common stock to two institutional investors for $1,250,000. The Company received $1,000,000 of this by June 30, 2007 and the remainder was received on July 2, 2007. The shares were issued in July 2007. This purchase agreement contained a "green shoe" clause whereby the investors had the option to purchase within six months the same number of shares at the same price and receive the same number of warrants. In October 2007, the investors exercised the "green shoe" clause and the Company sold them 757,576 shares of the Company's common stock valued at $1,250,000. As part of the agreement, the investors were granted 378,788 warrants with an exercise price of $1.65.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Services, Accrued Expenses and Payables

In July 2004, 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 2004 – 2005 term of office. These conditions were met and a total of 28,000 restricted Rule 144 common shares were issued in August 2005 and 11,000 shares were issued in March 2006. The shares were valued at the fair market value at the date of grant of $57,034 or $1.46 per share.

In October 2005, the Company issued 36,607 restricted Rule 144 common shares valued at $71,018 in payment of $50,000 in principal, $16,000 in penalties and $2,453 in accrued interest on a note payable (see Note 10).

In October 2005, the Company entered into an agreement with a vendor whereby the Company issued the vendor 27,231 shares valued at $52,828 for the payment of outstanding invoices in the amount of $50,923. As a result, the Company recorded a loss on settlement of debt in the amount of $1,905.

In March 2006, the Company entered into an agreement with a former consultant whereby the Company agreed to issue the consultant 10,000 restricted Rule 144 shares of its common stock valued at $19,200 for past services.

In March 2006, a director exercised 15,000 options at $.75 per share for a total of $11,250. The value of the shares was applied against accrued fees payable.

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 was to be issued after the end of each quarter. The Company issued 7,755 shares of its common stock during the year ended June 30, 2006. The Company issued 12,177 shares of its common stock during the fiscal year ended June 30, 2007 valued at $21,250. The agreement was terminated on December 15, 2006.

In January 2006, the Company entered into an agreement with two consultants whereby the Company agreed to issue shares of the Company's restricted common stock for their services. During the fiscal year ended June 30, 2007, the Company issued 160,624 shares of restricted common stock valued at $269,128. The agreement was terminated in May 2007.

In October 2006, the Company entered into an agreement with a consultant whereby the Company agreed to issue 25,000 shares of the Company's restricted common stock at the signing of the agreement. The shares were valued at $36,250 or $1.45 per share.

In October 2006, the Company entered into an agreement with a consultant whereby the Company agreed to issue a total of 40,000 of the Company's restricted stock, to be paid at the end of each quarter of service. As of June 30, 2007, the Company has recorded as "Stock to Be Issued" 10,000 shares valued at $15,000 or $1.50 per share under this agreement. In October 2007, these shares were issued. During the year ended June 30, 2008, the remaining 30,000 shares valued at $45,000 were issued.

In October 2006, the Company entered into an agreement with an employee whereby the Company agreed to issue a total of 35,000 shares of the Company's restricted common stock valued at $132,650; vesting over one year on a quarterly basis. During the year ended June 30, 2008, 17,500 shares were vested and issued valued at $66,324were issued to the employee.

In June 2008, the Company entered into an agreement with a consultant whereby the Company agreed to issue a total of 20,000 shares of the Company's restricted common stock valued at $56,600 for services rendered. As of June 30, 2008, the stock had not been issued and is shown in "Stock to be Issued".

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Options and Warrants Exercised

During the year ended June 30, 2006, the Company issued 285,383 shares of its common stock for the exercise of options valued at $343,132. Of these, $52,500 has been recorded as "Stock Subscription Receivable". In addition, 3,030 shares valued at $5,000 have been shown as "Stock to Be Issued."

During the year ended June 30, 2007, the Company issued 1,571,243 shares of its common stock for the exercise of options valued at $2,585,474. Of this, $1,173,750 was recorded as "Stock Subscription Receivable", $33,750 was a cashless exercise whereby the exercise price was applied against amounts owed by the Company to a Director, and $7,000 was applied to amounts owed by the Company to an employee. $150,000 was a cashless exercise whereby the exercise price was applied against amounts owed by the Company to three officers (see Note 10). In addition, 3,030 shares of the Company's common stock valued at $5,000 was issued against payments made in the previous year and was recorded as a reduction in "Shares to Be Issued."

During the year ended June 30, 2008, the Company issued 849,938 shares of its common stock for the exercise of options valued at $1,477,929. Of these shares, 1,818 valued at $3,000 were issued against amounts owed by the Company to an employee, and a net amount of $16,750 was recorded against "subscription receivable". In addition, 20,000 shares valued at $36,600 was recorded as "shares to be issued" as of June 30, 2008.

During the year ended June 30, 2008, the Company issued 1,087,359 shares of its common stock for the exercise of warrants valued at $1,754,547.

Payment of Interest

On December 13, 2006, the Company issued a total of 230,863 shares of the Company's common stock valued at $339,137 or $1.47 per share to the convertible note holders as payment of the interest due to them (see note 13). This payment included 60,000 shares valued at $88,201 as premium shares to accept payment of the interest in the Company's common stock rather than cash. These shares have been registered with the Securities and Exchange Commission.

Issuance of shares for Conversion of Debt and Settlement of Litigation

During the year ended June 30, 2006, three of the convertible debenture holders elected to convert their notes into common stock. The total of the notes converted was $150,000 and the Company issued 80,646 shares of its common stock to the note holders.

Payment of Dividend to Preferred Stockholders

During the years ended June 30, 2008 and 2007, the Company issued 114,588 and 105,589 shares of the Company's common stock valued at $222,673 and $159,684, respectively, as payment of the dividend owed to the Preferred Stockholders (see Note 11).

Stock Subscription Receivable

Stock subscription receivable represents stock options exercised and issued that the Company has not yet received the payment from the purchaser.

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended June 30, 2006, the Company recorded $52,500 in receivable and collected $369,900. The Company also recorded the cancellation of $43,650 due as a charge to additional paid-in capital as a result of a review of the records when the amount was recorded in 2000. It was determined the amount was not due and therefore was cancelled. The balance of the receivable at June 30, 2006 was $299,250.

During the year ended June 30, 2007, the Company issued a total of $1,673,750 of new receivables and received payments of $936,593. In addition, $35,000 was applied to amounts owing from a subsidiary. The balance at June 30, 2007 was $1,001,407.

During the year ended June 30, 2008, a total of $542,000 was collected and new receivables of $211,500 were issued. In addition, the Company wrote-off $70,000 of receivables as uncollectible from employees who have since left the Company. The balance at June 30, 2008 was $600,907.

Treasury Stock

During the year ended June 30, 2006, the Company issued 10,000 of its treasury shares valued at $17,002 for the payment of services. The balance at June 30, 2006 and 2007 was $10,194.

On March 24, 2008, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 1,000,000 of its shares of common stock over the next 6 months. The shares are to be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion. During the year ended June 30, 2008, the Company had repurchased a total of 13,600 shares on the open market valued at $25,486. The balance as of June 30, 2008 was $35,681.

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:

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	# shares		Exercise Price		Aggregated Intrinsic Value
Options:					
Outstanding and exercisable, June 30, 2005	5,038,000	$	0.75 to $5.00	$	-
Granted	3,850,913	$	1.65 to $3.00		
Exercised	(303,413)	$	0.75 to $1.75		
Expired	-				
Outstanding and exercisable, June 30, 2006	8,585,500	$	0.75 to $5.00	$	269,125
Granted	180,606	$	1.65		
Exercised	(1,573,743)	$	0.75 to $1.94		
Expired	(90,000)	$	2.64 to $5.00		
Outstanding and exercisable, June 30, 2007	7,102,363	$	0.75 to $5.00	$	129,521
Granted	20,000	$	1.60		
Exercised	(869,938)	$	0.75 to $2.55		
Expired	(180,000)	$	0.75		
Outstanding and exercisable, June 30, 2008	6,072,425	$	0.75 to $5.00	$	1,717,608
Warrants:					
Outstanding and exercisable, June 30, 2005	655,280	$	1.75 to $5.00	$	-
Granted	1,973,657	$	1.65 - $3.30		
Exercised	-				
Expired	(30,000)	$	1.75 - $3.75		
Outstanding and exercisable, June 30, 2006	2,598,937	$	1.65 to $5.00	$	13,333
Granted	403,788	$	1.65 to $3.70		
Exercised	-				
Expired	-				
Outstanding and exercisable, June 30, 2007	3,002,725	$	1.65 to $5.00	$	58,091
Granted	378,788	$	1.65		
Exercised	(1,269,199)	$	1.65 to $3.30		
Expired	(120,000)	$			

			2.50 to $5.00		
Outstanding and exercisable, June 30, 2008	1,992,314	$	1.65 to $5.00	$	1,206,095

The average life remaining on the options and warrants as of June 30, 2008 is as follows:

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Ave Exericse Price
OPTIONS:			
$0.01 - $0.99	14,000	3.58	0.75
$1.00 - $1.99	2,193,425	7.10	1.87
$2.00 - $2.99	3,065,000	6.75	2.68
$3.00 - $5.00	800,000	5.78	4.24
Totals	6,072,425	6.74	2.59
WARRANTS:			
$1.00 - $1.99	1,527,652	3.43	1.79
$3.00 - $5.00	464,662	1.14	3.31
Totals	1,992,314	2.90	2.15

All options and warrants granted are vested and are exercisable as of June 30, 2008.

Options:

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 six months ended December 31, 2006 includes compensation expense for all stock-based compensation awards vested during the six months ended December 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R.

During the year ended June 30, 2006, 3,848,413 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 these options ranges between $1.65 and $3.00. No expense was recorded for the granting of these options.

In compliance with FAS No. 148, the Company had elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation plan as defined by APB No. 25 and has made the applicable disclosures below.

Had the Company determined employee stock based compensation cost based on a fair value model at the grant date for its stock options under SFAS 123, the Company's net earnings per share would have been adjusted to the pro forma amounts for year ended June 30, 2006 as follows:

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

		2006 Restated
Net income (loss) - as reported	$	(1,554,116)
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		(5,674,402)
Pro forma net loss	$	(7,228,518)
Earnings per share:		
Basic, as reported		(0.11)
Diluted, as reported		(0.11)
Basic, pro forma		(0.50)
Diluted, pro forma		(0.50)

Pro forma information regarding the effect on operations is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. Pro forma information using the Black-Scholes method at the date of grant based on the following assumptions:

	2006
Expected life (years)	10 years
Risk-free interest rate	3.25% - 6.0%
Dividend yield	–
Volatility	54% - 100%

During the year ended June 30, 2006, a total of 2,500 options were granted to a consultant and are fully vested from the date of grant. The options expire in ten years and have an exercise price of $1.98 per share. The options were valued using the fair value method at $4,113 or $1.65 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	10 years
Expected volatility	82%
Dividend yield	0%

During the quarter ended June 30, 2007, 180,606 options were granted to employees with an exercise price of $1.65 per share and an expiration date of one-year. All options granted have been exercised as of June 30, 2007. Using the

Black-Scholes method to value the options, the Company recorded $102,584 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate	7%
Expected life	1 year
Expected volatility	83%

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the quarter ended September 30, 2007, 20,000 options were granted to two officers with an exercise price of $1.60 per share and an expiration date of ten years, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $24,320 in compensation expense for these options in the accompanying consolidated financial statements.

The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate	4.5%
Expected life	10 years
Expected volatility	65%

Warrants:

During the year ended June 30, 2006, three debenture holders converted their notes into common stock. As part of the conversion, warrants to purchase a total of 40,323 common shares were issued to the note holders. 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 $21,505 and ranged between $0.45 and $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	44% - 56%
Dividend yield	0%

On October 11, 2006, the Company entered into an agreement with a consultant whereby the Company agreed to grant the consultant a total of 100,000 warrants with an exercise price of $1.85 and 100,000 warrants with an exercise price of $3.70. The warrants vest equally over the term of the agreement on a quarterly basis commencing on January 11, 2007 and vest only upon completion of the quarter’s service as earned. The agreement was terminated on March 31, 2007. The 25,000 warrants vested are exercisable until October 10, 2011 and all non-vested warrants were cancelled at the time of the agreement termination. During the quarter ended March 31, 2007, a total of 25,000 of the warrants had vested. The warrants were valued using the fair value method at $33,987 or $1.44 and $1.28 per share and recorded during the year ended June 30, 2007. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate	7.0%
Expected life	5 years
Expected volatility	100%
Dividend yield	0%

In October 2007, the investors exercised the “green shoe” clause and the Company sold them 757,576 shares of the Company’s common stock valued at $1,250,000. In addition as part of the agreement, the investors were granted 378,788 warrants with an exercise price of $1.65 and expire in five years.

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

The 2001 Plan

On March 27, 2002, the Company enacted an Incentive and Non-statutory Stock Option Plan (the "2001 Plan") for its employees and consultants under which a maximum of 2,000,000 options may be granted to purchase common stock of the Company. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

The number and exercise prices of options granted under the 2001 Plan is as follows:

	As of 6/30/2008	Exercise Price	As of 6/30/2007	Exercise Price	As of 6/30/2006	Exercise Price
Outstanding and exercisable, beginning of year	31,000	$ 0.75 to $1.25	46,000	$ 0.75 to $2.50	111,000	$ 0.75 to $2.50
Granted	-		-		-	$ 0.75 to $2.50
Exercised	(15,000)	$ 0.75	(15,000)	$ 0.75 to $1.75	(65,000)	$ 0.75 to $1.75
Expired	-	-	-	-	-	-
Outstanding and exercisable, end of year	16,000	$ 0.75 to $1.00	31,000	$ 0.75 to $1.00	46,000	$ 0.75 to $1.25

The 2002 Plan

In January 2003, the Company enacted an Incentive and Non-statutory Stock Option Plan (the "2002 Plan") for its employees and consultants under which a maximum of 2,000,000 options may be granted to purchase common stock of the Company. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

The number and weighted average exercise prices of options granted under the 2002 Plan is as follows:

	As of 6/30/2008		Exercise Price	As of 6/30/2007		Exercise Price	As of 6/30/2006		Exercise Price
Outstanding and exercisable, beginning of year	972,000	$	0.75 to $5.00	1,059,500	$	0.75 to $2.50	1,139,500	$	0.75 to $2.50
Granted	-		-	-		-	-		-
Exercised	(60,000)	$	1.25	(47,500)	$	0.75 to $2.30	(80,000)	$	0.75
Expired	(30,000)	$	0.75 - $2.50	(40,000)	$	3.00 to $5.00	-		-
Outstanding and exercisable, end of year	882,000	$	0.75 to $5.00	972,000	$	0.75 to $5.00	1,059,500	$	0.75 to $5.00

The 2003 Plan

In March 2004, the Company enacted an Incentive and Non-statutory Stock Option Plan (the “2003 Plan”) for its employees and consultants under which a maximum of 2,000,000 options may be granted to purchase common stock of the Company. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The number and weighted average exercise prices of options granted under the 2003 Plan is as follows:

	As of 6/30/2008	Exercise Price	As of 6/30/2007	Exercise Price	As of 6/30/2006	Exercise Price
Outstanding and exercisable, beginning of year	745,000	$ 1.00 to $5.00	970,000	$ 1.00 to $5.00	787,500	$ 1.00 to $5.00
Granted	20,000	$ 1.60	180,606	$ 1.65	182,500	$ 1.70 to $2.55
Exercised	(236,000)	$ 1.70 to $1.98	(355,606)	$ 1.25 to $1.65	-	-
Expired	(50,000)	$ 2.64 to $5.00	(50,000)	$ 2.64 to $5.00	-	-
Outstanding and exercisable, end of year	479,000	$ 1.60 to $5.00	745,000	$ 1.25 to $5.00	970,000	$ 1.25 to $5.00

The 2004 Plan

In March 2005, the Company enacted an Incentive and Non-statutory Stock Option Plan (the “2004 Plan”) for its employees and consultants under which a maximum of 5,000,000 options may be granted to purchase common stock of the Company. A registration statement on form n S-8 was filed on April 7, 2006 registering the shares of common stock underlying the options in this plan. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

The number and weighted average exercise prices of options granted under the 2004 Plan is as follows:

	As of 6/30/2008	Exercise Price	As of 6/30/2007	Exercise Price	As of 6/30/2006	Exercise Price
Outstanding and exercisable, beginning of year	3,574,363	$ 1.65 to $3.00	4,730,000	$ 1.65 to $3.00	3,000,000	$ 1.94 to $2.91
Granted	-	-	-	-	1,888,413	$

								1.65 to $3.00
Exercised	(448,938)	$	1.65 to $2.00	(1,155,637)	$	1.65 to $1.94	(158,413)	$	1.65 to $1.75
Expired	(50,000)	$	1.93 to $2.89	-		-	-		-
Outstanding and exercisable, end of year	3,075,425	$	1.65 to $3.00	3,574,363	$	1.65 to $3.00	4,730,000	$	1.65 to $3.00

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The 2005 Plan

In April 2006, the Company enacted an Incentive and Non-statutory Stock Option Plan (the "2005 Plan") for its employees and consultants under which a maximum of 5,000,000 options may be granted to purchase common stock of the Company. Two types of options may be granted under the Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Non-statutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is less than the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

Any Option granted to an Employee of the Corporation shall become exercisable over a period of no longer than ten (10) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually. No Incentive Stock Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of ten (10) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

The number and weighted average exercise prices of options granted under the 2005 Plan is as follows:

	As of 6/30/2008	Exercise Price	As of 6/30/2007	Exercise Price	As of 6/30/2006	Exercise Price
Outstanding and exercisable, beginning of year	1,780,000	$ 1.70 to $2.55	1,780,000	$ 1.70 to $2.55	-	-
Granted	-	-	-	-	1,780,000	$ 1.70 to $2.55
Exercised	(110,000)	$ 1.70 to $2.55	-	-	-	-
Expired	(50,000)	$ 1.83 to $2.50	-	-	-	-
Outstanding and exercisable, end of year	1,620,000	$ 1.70 to $2.50	1,780,000	$ 1.70 to $2.55	1,780,000	$ 1.70 to $2.55

2008 EQUITY INCENTIVE PLAN

In May 2008, the shareholders approved the 2008 Equity Incentive Plan (the "2008 Plan") which provides for the grant of equity-based awards, including options, stock appreciation rights, restricted stock awards or performance share awards or any other right or interest relating to shares or cash, to eligible participants. The aggregate number of shares reserved and available for award under the 2008 Plan is 1,000,000 (the Share Reserve). The 2008 Plan contemplates the issuance of common stock upon exercise of options or other awards granted to eligible persons under the 2008 Plan. Shares issued under the 2008 Plan may be both authorized and unissued shares or previously issued shares acquired by the Company. Upon termination or expiration of an unexercised option, stock appreciation right or other stock-based award under the 2008 Plan, in whole or in part, the number of shares of common stock subject to such award again become available for grant under the 2008 Plan. Any shares of restricted stock forfeited as described below will become available for grant. The maximum number of shares that may be granted to any one participant in any calendar year may not exceed 500,000 shares. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
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a) *Stock Options.* Options granted under the 2008 Plan are not generally transferable and must be exercised within 10 years, subject to earlier termination upon termination of the option holder's employment, but in no event later than the expiration of the option's term. The exercise price of each option may not be less than the fair market value of a share of the Company's common stock on the date of grant (except in connection with the assumption or substitution for another option in a manner qualifying under Section 424(a) of the Internal Revenue Code of 1986, as amended (the Code). Incentive stock options granted to any participant who owns 10% or more of the Company's outstanding common stock (a Ten Percent Shareholder) must have an exercise price equal to or exceeding 110% of the fair market value of a share of our common stock on the date of the grant and must not be exercisable for longer than five years. Options become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The maximum term of any option granted under the 2008 Plan is ten years, provided that an incentive stock option granted to a Ten Percent Shareholder must have a term not exceeding five years.

b) *Performance Awards.* Under the 2008 Plan, a participant may also be awarded a "performance award," which means that the participant may receive cash, stock or other awards contingent upon achieving performance goals established by the Committee. The Committee may also make "deferred share" awards, which entitle the participant to receive our stock in the future for services performed between the date of the award and the date the participant may receive the stock. The vesting of deferred share awards may be based on performance criteria and/or continued service with our Company. A participant who is granted a "stock appreciation right" under the Plan has the right to receive all or a percentage of the fair market value of a share of stock on the date of exercise of the stock appreciation right minus the grant price of the stock appreciation right determined by the Committee (but in no event less than the fair market value of the stock on the date of grant). Finally, the Committee may make "restricted stock" awards under the 2008 Plan, which are subject to such terms and conditions as the Committee determines and as are set forth in the award agreement related to the restricted stock.

As of June 30, 2008, no options or other awards have been made under this plan.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Leases

The Company's headquarters is located in California in approximately 1,919 rentable square feet and a monthly rent of $4,754 per month. The term of the lease is for two years and expires on December 31, 2009. A security deposit of $4,790 was made and is included in other current assets in the accompanying consolidated financial statements.

The Australia lease is a month to month lease and is rented at the rate of $1,380 per month. The Beijing lease is a two year lease that expires in August 2009. The monthly rent is $4,315 per month. The Bangkok lease is a one year lease with monthly rent of $752. The NetSol Europe facilities, located in Horsham, United Kingdom, are leased until June 23, 2011 for an annual rent of £75,000 (approximately $150,330). NTNA recently relocated to the Emeryville, California location. The Emeryville lease is a ten year lease with monthly rent of $77,880. NTNA's former Burlingame, California, premises are leased until June 30, 2009 with a monthly rent of $16,178. NTNA is actively seeking to sublet the Burlingame, California premises.

The NetSol Karachi lease is a 3 year lease that expires on December 4, 2008 and currently is rented at the rate of $1,726 per month. The NetSol Islamabad lease is a 15 year lease that expires on August 31, 2016 and currently is rented at the rate of $1,417 per month. The NetSol Rawalpindi lease is a 1 year lease that expires in January 2009 and currently is rented at the rate of $850 per month.

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Explanation of Responses:

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Upon expiration of its leases, the Company does not anticipate any difficulty in obtaining renewals or alternative space. Rent expense amounted to $807,835 and $804,295 for the years ended June 30, 2008 and 2007, respectively.

The total annual lease commitment for the next five years is as follows:

FYE 2009	$ 1,339,914
FYE 2010	$ 1,122,606
FYE 2011	$ 1,122,606
FYE 2012	$ 951,564
FYE 2013	$ 951,564

Lahore Technology Campus

In May 2004, the newly built Technology Campus was inaugurated in Lahore, Pakistan. This facility consists of 50,000 square feet of computer and general office space. This facility is state of the art, purpose-built and fully dedicated for IT and software development; the first of its kind in Pakistan. Title to this facility is held by NetSol Technologies Ltd. and is not subject to any mortgages. In order to cater for future business expansion and taking advantage of depressing real estate market, the company purchased two new cottages adjacent to its main building. Total covered area of these cottages is 4,900 sq feet and it cost was $250,000 approx. The management has moved its accounts, finance, internal audit, company secretariat and costing and budgeting department into these cottages. For the recreation of its valuable human resources, the management has also established a gymnasium there.

NetSol PK has outgrown its current facility and has looked to other sources to house its growing numbers of employees. During the year ended June 30, 2007, the owner of the adjacent land agreed to build an office to the Company’s specifications and the Company agreed to help pay for the development of the land in exchange for discounted rent for the next three years. In addition, NetSol PK has begun work on building a new building behind the current one. The enhancement of infra-structure is necessary to meet the company’s growth in local and international business.

Employment Agreements

Effective January 1, 2007 and amended on January 1, 2008, the Company entered into an Employment Agreement with the Chief Executive Officer. Pursuant to the Employment Agreement between the CEO and the Company (the "CEO Agreement"), the Company agreed to employ him as its Chief Executive Officer from the date of the CEO Agreement through December 31, 2009. Under the CEO Agreement, the CEO is entitled to an annualized base salary of $300,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, the CEO is entitled to participate in the Company's stock option plans, is entitled to two weeks of paid vacation per calendar year and is to receive a car allowance totaling $3,000 per month for the term of the CEO Agreement. Finally, during the term of the CEO Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of the CEO, his spouse and dependent family members under the Company's health and related benefit plans.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Effective January 1, 2007 and amended on January 1, 2008, the Company entered into an Employment Agreement with the President of the EMEA Region and Chief Executive Officer of the Global Products Division. Pursuant to the Employment Agreement between him and the Company (the "President EMEA Agreement"), the Company agreed to employ him as its President of the EMEA region and Chief Executive Officer of the Global Products Division from the date of the President EMEA Agreement through December 31, 2009. Under the President EMEA Agreement, he is entitled to an annualized base salary of £122,000 or approximately $245,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, he is entitled to participate in the Company's stock option plans, is entitled to two weeks of paid vacation per calendar year and is to receive a car allowance totaling $2,000 per month for the term of the President EMEA Agreement. Finally, during the term of the President EMEA Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of him, his spouse and dependent family members under the Company's health and related benefit plans.

Effective January 1, 2007 and amended on January 1, 2008, the Company entered into an Employment Agreement with our President of the APAC Region and Chief Executive Officer of the Global Services Division. Pursuant to the Employment Agreement between him and the Company (the "President APAC Agreement"), the Company agreed to employ him as its President APAC and Chief Executive Officer of the Global Services Division from the date of the President APAC Agreement through December 31, 2009. Under the President APAC Agreement, he is entitled to an annualized base salary of $225,000 and is eligible for annual bonuses at the discretion of the Compensation Committee. The Company retained the right to increase the base compensation as it deems necessary. In addition, he is entitled to participate in the Company's stock option plans, is entitled to two weeks of paid vacation per calendar year. Finally, during the term of the President APAC Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of him, his spouse and dependent family members under the Company's health and related benefit plans.

Effective May 1, 2006, the Company entered into an Employment Agreement with our Secretary and General Counsel. Pursuant to the Employment Agreement between her and the Company (the "General Counsel Agreement"), the Company agreed to employ her as its Secretary and General Counsel from the date of the General Counsel Agreement through April 30, 2008. Under the General Counsel Agreement, she was entitled to an annualized base salary of $110,000 and is eligible for annual bonuses at the discretion of the Chief Executive Officer. Effective August 1, 2007, Ms. her annualized salary was raised to $130,000. The Company retained the right to increase the base compensation as it deems necessary. In addition, she is entitled to participate in the Company's stock option plans and, is entitled to two weeks of paid vacation per calendar year. Finally, during the term of the General Counsel Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of her, her spouse and dependent family members under the Company's health and related benefit plans.

Effective July 20, 2005, we entered into an employment agreement with the Chief Financial Officer. The agreement was amended effective May 1, 2006 to provide a yearly salary of $95,000. Effective August 1, 2007, her annualized salary was raised to $132,000 and is eligible for annual bonuses at the discretion of the Chief Executive Officer. The Company retained the right to increase the base compensation as it deems necessary. In addition, she is entitled to participate in the Company's stock option plans and, is entitled to two weeks of paid vacation per calendar year. Finally, during the term of the Chief Financial Officer Agreement, the Company shall pay the amount of premiums or other costs incurred for the coverage of her and her dependent family members under the Company's health and related benefit plans.

The agreements also provide for reimbursement of reasonable business-related expenses. The agreements also provide for certain covenants concerning non-competition, non-disclosure, indemnity and assignment of intellectual property rights.

Litigation

As of June 30, 2008 and 2007, to the best knowledge of the Company's management and counsel, there is no material litigation pending or threatened against the Company.

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – SEGMENT AND GEOGRAPHIC AREAS

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

The following table presents a summary of operating information and certain year-end balance sheet information for the years ended June 30, 2008, 2007, and 2006:

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
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		2008		2007		2006
Revenues from unaffiliated customers:						
North America	$	3,969,521	$	4,953,083	$	45,250
Europe		7,676,225		5,482,972		7,414,960
Asia - Pacific		24,996,429		18,846,031		11,230,202
Consolidated	$	36,642,175	$	29,282,086	$	18,690,412
Operating income (loss):						
Corporate headquarters	$	(3,845,756)	$	(3,358,739)	$	(3,688,598)
North America		(932,008)		29,257		-
Europe		1,838,541		(704,530)		898,141
Asia - Pacific		10,148,442		6,680,880		2,531,110
Consolidated	$	7,209,219	$	2,646,868	$	(259,347)
Net income (loss) after taxes and before minority adjustment:						
Corporate headquarters	$	(2,784,659)	$	(8,474,143)	$	(4,119,188)
North America		(910,833)		38,510		-
Europe		1,767,712		(832,294)		834,381
Asia - Pacific		11,958,119		6,325,955		2,885,874
Consolidated	$	10,030,339	$	(2,941,972)	$	(398,933)
Identifiable assets:						
Corporate headquarters	$	16,566,612	$	13,263,111	$	17,630,389
North America		1,920,508		2,070,829		2,329,837
Europe		6,233,480		4,833,181		4,318,911
Asia - Pacific		39,056,094		29,362,020		18,746,011
Consolidated	$	63,776,694	$	49,529,141	$	43,025,148
Depreciation and amortization:						
Corporate headquarters	$	1,402,219	$	1,406,989	$	1,887,646
North America		214,777		131,848		-
Europe		301,505		268,795		173,258
Asia - Pacific		1,419,455		833,640		959,144
Consolidated	$	3,337,956	$	2,641,272	$	3,020,048
Capital expenditures:						
Corporate headquarters	$	4,189	$	3,986	$	4,367
North America		70,443		20,821		-
Europe		56,155		249,690		192,752
Asia - Pacific		4,304,968		2,145,973		2,512,450
Consolidated	$	4,435,755	$	2,420,470	$	2,709,569

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net revenues by our various products and services provided are as follows:

	For the Years Ended June 30, 2008	2007	2006
Licensing Fees	$ 12,685,039	$ 9,788,266	$ 5,192,371
Maintenance Fees	6,306,321	5,441,339	2,444,075
Services	17,650,815	14,052,481	11,053,966
Total	$ 36,642,175	$ 29,282,086	$ 18,690,412

NOTE 18 – MINORITY INTEREST IN SUBSIDIARY - RESTATED

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

SUBSIDIARY	MIN INT BALANCE AT 6/30/08	MIN INT BALANCE AT 6/30/07	MIN INT BALANCE AT 6/30/06
PK Tech	$ 6,309,918	$ 2,871,617	$ 655,805
NetSol-TiG	1,365,855	1,397,984	811,534
Connect	182,196	258,993	311,440
Omni	-	-	7,959
Total	$ 7,857,969	$ 4,528,594	$ 1,786,738

NetSol Technologies, Limited (“NetSol PK”)

In August 2005, the Company’s wholly-owned subsidiary, NetSol Technologies (Pvt), Ltd. (“NetSol PK”) became listed on the Karachi Stock Exchange in Pakistan. The Initial Public Offering (“IPO”) sold 13,986,000 shares of the subsidiary to the public thus reducing the Company’s ownership by 39.42%. 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 fiscal years ended June 30, 2008, 2007, and 2006, the subsidiary had net income of $9,842,805, $4,747,590, and $1,780,892, of which $4,127,154 and $2,272,643, and $702,027, respectively, was recorded against the minority interest. The balance of the minority interest at June 30, 2008 was $6,309,918.

On May 18 2007, the subsidiary’s board of directors authorized a 15% stock bonus dividend to all its stockholders as of that date. The net value of shares issued to minority holders was $345,415.

On October 19, 2007, the subsidiary’s board of directors authorized a 22% stock bonus dividend to all its stockholders as of that date. The net value of shares issued to minority holders was $545,359.

On April 11, 2008, the subsidiary’s board of directors authorized a 20% stock bonus dividend to all its stockholders as of that date. The net value of shares issued to minority holders was $615,335.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
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In February 2008, the Company sold 948,100 shares of its ownership in NetSol PK on the open market with a value of $1,765,615. A net gain of $1,240,808 was recorded as "Other Income" on these consolidated financial statements. As a result of the sale, the Company's ownership in the subsidiary decreased from 60.58% to 58.68% and the minority interest percentage increased 1.9% to 41.32%.

NetSol-Innovation:

In December 2004, NetSol forged a new and a strategic relationship with a UK based public company TIG Plc. A new Joint Venture was signed by the two companies to create a new company, TiG NetSol Pvt Ltd., during the current year the name was changed to NetSol-Innovation (Private) Limited, ("NetSol-Innovation"), 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 new subsidiary began operations during the quarter ended March 31, 2005.

For the fiscal years ended June 30, 2008, 2007, and 2006, the subsidiary had net income of $2,127,173, $1,401,444, and $879,134, of which $916,115, $596,802, and $438,688 was recorded against the minority interest, respectively. The balance of the minority interest at June 30, 2008 was $1,365,855.

On September 26, 2007, the subsidiary's board of directors authorized a cash dividend of 100,000,000 Pakistan Rupees ("pkr") or approximately $1,651,522. Of this amount, the Company received 50,520,000 pkr or approximately $834,349 which has been invested in NetSol PK. The net value to the minority holders is approximately $817,173.

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, 2005, a total of $751,356 had been transferred to Connect, of which $410,781 was from Akhter. In June 2006, a total of $40,000 cash was distributed to each partner as a return of capital. In addition during the year ended June 30, 2008, and addition $20,000 of cash was distributed to Akhter as a return of capital.

For the fiscal years ended June 30, 2008, 2007, and 2006, the subsidiary had net loss of $8,765, $57,117 and a net income of $14,304, respectively, of which ($4,374), ($28,501), and $7,138 respectively, was recorded against the minority interest. The balance of the minority interest at June 30, 2008 was $182,196.

NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
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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 services, professional courses, training and human resource services to the corporate sector. The major stockholder of Talk Trainers was Mr. Ayub Ghauri, 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.

In December 2007, the Company purchased the remaining 49.9% of the outstanding shares from the minority shareholders with a historical value of $12,399 for 25,000 shares of the Company's common stock valued at $76,750 (see note 14). Also in December, the operations of the subsidiary were merged into the operations of NetSol PK and will be reported under that subsidiary in the future.

For the fiscal years ended June 30, 2008 and 2007, the subsidiary had a net loss of $10,224 and $71,298, of which ($781) and ($7,959) was recorded against the minority interest. The balance of the minority interest at June 30, 2008 was $0.

NOTE 19 – ACQUISITION OF CQ SYSTEMS

On January 19, 2005, the Company entered into an agreement to acquire 100% of the issued and outstanding shares of common stock of CQ Systems Ltd., a company organized under the laws of England and Wales. The acquisition closed on February 22, 2005.

According to the terms of the Share Purchase Agreement, the Company acquired 100% of the issued and outstanding shares of CQ from CQ's current shareholders, whose identity is set forth in the Share Purchase Agreement (the "CQ Shareholders") at the completion date in exchange for a purchase price consisting of: a) 50.1% of CQ's total gross revenue for the twelve month period ending March 31, 2005 after an adjustment for any extraordinary revenue, i.e. non-trading revenue ("LTM Revenue") multiplied by 1.3 payable: (i) 50% in shares of restricted common stock of the Company at a per share cost basis of $2.313 and as adjusted by the exchange rate of U.S. Dollar to British Pound (at the spot rate for the purchase of sterling with U.S. dollars certified by NatWest Bank plc as prevailing at or about 11:00 a.m.) on January 19, 2005 and, (ii) 50% in cash; and b) 49.9% of CQ's LTM Revenue for the period ending March 31, 2006 multiplied by 1.3 payable, at the Company's discretion: (i) wholly in cash; or (ii) on the same basis and on the same terms as the initial payment provided, however that the cost basis of the Company's common stock shall be based on the 20 day volume weighted average of the Company's shares of common stock as traded on NASDAQ 20 days prior to March 31, 2005 and, provided that under no circumstances shall the total number of shares of common stock issued to the CQ Shareholders exceed 19% of the issued and outstanding shares of common stock, less treasury shares, of the Company at January 19, 2005.

The initial purchase price was £3,576,335 or $6,730,382, of which one-half was due at closing payable in cash and stock and the other half is due when the audited March 31, 2006 financial statements are completed. On the closing date, $1.7 million was paid and 681,965 shares were issued to the shareholders of CQ, valued at $1,676,795 at an average share price of $2.46 (see note 14) was recorded. In addition, the agreement called for the accumulated retained earnings amounting to £423,711 or $801,915 of CQ Systems as of the closing date to be paid to the shareholders in cash and stock. In April 2005, the additional cash of £350,000 or $662,410 was paid and 77,503 shares of the Company's common stock valued at $139,505 were issued. The total amount paid at closing was $4,178,710.

In accordance with SFAS 141, the Company had recognized the lesser of the maximum amount of the contingent consideration based on earnings or the excess of the fair market value of assets acquired over the purchase price as a deferred liability. The deferred liability balance at June 30, 2005 was $313,397. The purchase price was allocated as follows:

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
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Purchase Price Allocation:		
Purchase Price	$	7,532,297
Less contingent consideration		(3,353,587)
Net purchase price	$	4,178,710
Net tangible assets	$	984,420
Intangible Assets:		
Product License		2,190,807
Customer Lists		1,316,880
Deferred liability		(313,397)
Net purchase price	$	4,178,710

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 shareholders of CQ Systems. In July 2006, the cash portion of $1,936,530 plus $31,810 of interest was paid to the shareholders. As a result of the final payment the Company recorded an addition of $3,471,813 to goodwill.

NOTE 20 – ACQUISITION OF McCUE SYSTEMS (now NetSol Technologies North America)

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.

According to the terms of the Share Purchase Agreement, the Company acquired 100% of the issued and outstanding shares of McCue from McCue's current shareholders, whose identity is set forth in the Share Purchase Agreement (the "McCue Shareholders") at the completion date in exchange for a purchase price consisting of: a) 50% of McCue's total gross revenue for the audited twelve month period ending December 31, 2005 after an adjustment for any revenue occurring outside of the company's ordinary scope of operations as defined by US GAAP multiplied by 1.5 payable: (i) 50% in shares of restricted common stock of the Company at the 30 day volume weighted average price ("VWAP) for each of the 30 trading days prior to the execution date of this agreement or at the VWAP for each of the 30 trading days prior to November 30, 2005 whichever is the greater VWAP; and, (ii) 50% in cash; b) 25% of McCue's total gross revenue for the twelve months ending December 31, 2006 multiplied by 1.5 payable, at the Company's discretion: (i) wholly in cash; or (ii) on the same basis and on the same terms as the initial payment provided that under no circumstances shall the total number of shares of common stock issued to the McCue Shareholders exceed 19% of the issued and outstanding shares of common stock, less treasury shares, of the Company at May 6, 2006; and c) 25% of McCue's total gross revenue for the twelve months ending December 31, 2007 multiplied by 1.5 payable, at the Company's discretion: (i) wholly in cash; or (ii) on the same basis and on the same terms as the initial payment provided that under no circumstances shall the total number of shares of common stock issued to the McCue Shareholders exceed 19% of the issued and outstanding shares of common stock, less treasury shares, of the Company at May 6, 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, was recorded. The cash was paid on July 5, 2006 and the shares were also issued in July 2006. The total amount recorded at closing was $3,746,843.

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NETSOL TECHNOLOGIES INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The purchase price was allocated as follows:

Purchase Price Allocation:		
Purchase Price	$	8,471,455
Less contingent consideration		(4,235,727)
Adjustment for valuation of shares to market at closing		(488,885)
Net purchase price	$	3,746,843
Net tangible assets	$	80,245
Intangible Assets:		
Product License		127,510
Customer Lists		2,143,837
Goodwill		1,395,251
Net purchase price	$	3,746,843

In June 2007, the second installment for the purchase of McCue Systems was determined based on the audited revenues for the twelve month period ending December 31, 2006. Based on the earn-out formula in the purchase agreement, $1,807,910 was due in cash and stock. On June 27, 2007, 397,700 shares of the 408,988 shares due of the Company's restricted common stock were issued to the shareholders of McCue Systems. The balance represents shareholders of McCue Systems that haven't been located as of this date. In July and August 2007, $450,000 and $429,007 of the cash portion was paid to the shareholders. As a result of the second payment the Company recorded an addition of $1,615,595 to goodwill.

In June 2008, the third and final installment for the purchase of McCue Systems was determined based on the audited revenues for the twelve month period ending December 31, 2007. Based on the earn-out formula in the purchase agreement, $1,525,632 was due in cash and stock, of which $762,816 is due in cash and 345,131 shares were due. On July 3, 2008, 335,604 shares of the 345,131 shares due of the Company's restricted common stock were issued to the shareholders of McCue Systems. The balance represents shareholders of McCue Systems that haven't been located as of this date. In July and August 2008, $737,868 of the cash portion was paid to the shareholders. As a result of the final payment the Company recorded an addition of $1,653,254 to goodwill.

NOTE 21 – SUBSEQUENT EVENTS

On July 3, 2008, 335,604 shares of the 345,131 shares due of the Company's restricted common stock were issued to the shareholders of McCue Systems. In addition, in July and August 2008, $737,868 of the cash balance due to the shareholders was paid.

On July 3, 2008, 13,107 shares valued at $33,508 of the Company's common stock was issued as payment of the dividend due to the Preferred Shareholders.

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On July 2, 2008, the Company granted 100,000 options to an employee at an exercise price of $1.65 and an expiration date of three months, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $89,700 in compensation expense for these options.

In July 2008, three officers of the Company exercised 98,358 option shares valued at $179,738 against amounts owing to them.

On July 23, 2008, the Company entered into a Convertible Note with two investors with a total value of $6,000,000. The note has an interest rate of 7% per annum and is convertible into common shares at a conversion rate of $3.00 per share. The fair market value of the shares at the date of signing was $2.90; therefore, no beneficial conversion feature expense is to be recorded on the transaction.

In August 2008, a warrant holder exercised 51,515 warrants valued at $99,424.

On September 12, 2008, at the completion of the audited financial statements, bonuses in the form of option grants became due to three of the officers of the Company for the successful meeting of certain benchmarks. A total of 1,800,000 options were granted, and have an expiration date of ten years. The options vest over 24 months. Using the Black-Scholes method to value the options, the total value of the options was $2,490,600. Of this amount, $62,265 was recorded in the quarter ended September 30, 2008.

For the quarter ended September 30, 2008, the Company recorded the dividend payable to the preferred stockholders in the amount of $33,876.

On October 31, 2008, the Company entered into an agreement to purchase 100% of the member shares of Ciena Solutions, LLC, a California limited liability corporation. Under the terms of the agreement, the Company will pay a deposit of $350,000 to the two members for the purchase with the full purchase price to be determined based on the performance of the new entity over the next four years. No assets or liabilities will be picked up by the Company at the acquisition, only the rights to the existing contracts. As the effects of this transaction are immaterial to the Company overall, no pro forma information is provided.

The total Purchase Price is to be the total of the Initial Consideration and the Deferred Consideration. The Initial Consideration was Three Hundred Fifty Thousand Dollars ($350,000). The Deferred Consideration to be the Consideration After Fiscal Year 1, the Consideration After Fiscal Year 2, the Consideration After Fiscal Year 3 and, the Consideration After Fiscal Year 4; provided, however, that under no circumstances may the total number of NetSol Shares issued to Sellers (including those shares issued as part of the Initial Consideration and those shares issued which would be considered aggregated with those issued pursuant to this Agreement according to NASDAQ rules) exceed 19% of the issued and outstanding shares of common stock of NetSol, less treasury shares, on the date of the Closing. In the event NetSol is not permitted to issue as part of the Deferred Consideration, shares of common stock equal in value to 50% of the Deferred Consideration, NetSol may issue such amount as is permitted and the remainder in cash. Each Fiscal Year shall be measured from July 1 to June 30 with Fiscal Year 1 being the period from July 1, 2008 to June 30, 2009.

Deferred Consideration is to be calculated as follows:

1) after the conclusion of fiscal year 1, the consideration will be comprised of 25% of the lesser of Ciena's Earnings Before Interest, Tax, Depreciation and Amortization ("EBIDTA") for Year 1 multiplied by 4.5 or the Gross Revenue of Ciena for Year 1 multiplied by .75 less those capitalized costs incurred by NetSol and/or its subsidiaries for the

benefit of Ciena. All numbers shall be based on audited Fiscal Year 1 financial statements. Payments are to be made; a) 50% in restricted common stock of NetSol at the 30 day volume weighted average price (“VWAP”) in the 30 days preceding the end of Fiscal Year 1; and b) 50% in U.S. Dollars.

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2) Consideration after the conclusion of the second full year of operations, July 1, 2009 to June 30, 2010 ("Fiscal Year 2") will be comprised of 25% of the lesser of: Ciena's EBIDTA Year 2 multiplied by 4.5 or the Gross Revenue of Ciena for Fiscal Year 2 multiplied by .75 less those capitalized costs incurred by NetSol and/or its subsidiaries for the benefit of Ciena and less three hundred fifty thousand dollars ($350,000). If the consideration is a negative number, that negative number shall carry-over to the pay-out for Fiscal Year 3. All numbers shall be based on the audited Fiscal Year 2financial statements. Payment are to be made; a) 50% shall be payable in restricted common stock of NetSol at the 30 day VWAP as of June 30, 2010, in accordance with the VWAP Calculation, and; b) 50% in U.S. Dollars.
3) Consideration after the conclusion of the third full year of operations from July 1, 2010 to June 30, 2011 ("Fiscal Year 3") will be comprised of 25% of the lesser of: Ciena's EBIDTA for Fiscal Year 3 multiplied by 4.5 or the Gross Revenue of Ciena for Year 3 multiplied by .75 less those capitalized costs incurred by NetSol and/or its subsidiaries for the benefit of Ciena and less any carry-over from Fiscal Year 2. All numbers shall be based on the audited Fiscal Year 3 financial statements. Payment will be made; a) 50% shall be payable in restricted common stock of NetSol at the 30 day VWAP as of June 30, 2011 calculated in accordance with the VWAP Calculation, and; b) 50% in U.S. Dollars.
4) Consideration after the conclusion of the fourth full year of operations from July 1, 2011 to June 30, 2012 ("Fiscal Year 4") will be comprised of 25% of the lesser of: Ciena's EBIDTA for Fiscal Year 4 multiplied by 4.5 or the Gross Revenue of Ciena for Year 4 multiplied by .75 less those capitalized costs incurred by NetSol and/or its subsidiaries for the benefit of Ciena and less any carry-over from Fiscal Years 2 and 3. All numbers shall be based on the audited Fiscal Year 4 financial statements. Payment will be made; a) 50% shall be payable in restricted common stock of NetSol at the 30 day VWAP as of June 30, 2011 calculated in accordance with the VWAP Calculation, and; b) 50% in U.S. Dollars.

NOTE 22 – RESTATEMENT OF FINANCIAL STATEMENTS

On November 5, 2008, the management of NetSol Technologies, Inc. (the "Company") concluded, after consultation with our independent registered public accounting firm, and a review of the pertinent facts, that the previously issued financial statements contained in the Company's annual Report on Form 10-KSB for the years ended June 30, 2008, 2007 and 2006 should not be relied upon due primarily to computational errors in connection with the allocation of appropriate amounts to minority interest in the statement of income (operations) and calculation of minority interest ownership.

Our management, in consultation with our independent registered public accounting firm, has determined that the financial statements included therein overstated amount of our reported net income for the year ended June 30, 2008 and understatement of losses for the years ended June 30, 2007 and 2006, by approximately $2,229,824, $897,396 and $201,063, respectively.

Below is a comparative presentation of the balance sheet and income statement as of and for the years ended June 30, 2008, 2007 and 2006 as restated in this report and as reported in the Company's Reports on Form 10KSB previously filed with the Securities and Exchange Commission.

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	As reported 6/30/08	As Restated 6/30/08	As reported 6/30/07	As Restated 6/30/07	As reported 6/30/06	As Restated 6/30/06
BALANCE SHEET:						
Minority Interest	$ 6,866,514	$ 7,857,969	$ 6,866,514	$ 4,528,594	$ 1,637,045	$ 1,786,738
Additional Paid-in Capital	$ 76,456,697	$ 74,950,286	$ 66,988,147	$ 66,642,732	no change	
Accumulated Deficit	(32,067,003)	(33,071,702)	(32,067,003)	(37,885,387)	(31,672,041)	(31,873,104)
Other comprehensive loss	(4,267,579)	(2,747,924)	(4,267,579)	(352,929)	(419,660)	(368,290)
INCOME STATEMENT:						
Net income (loss) before minority interest in subsidiary	10,152,321	10,152,321	(2,781,666)	(2,781,666)	(292,912)	(292,912)
Minority interest in subsidiary	(2,808,291)	(5,038,115)	(1,935,589)	(2,832,985)	(954,120)	(1,155,183)
Income taxes	(121,982)	(121,982)	(160,306)	(160,306)	(106,021)	(106,021)
Net income (loss)	7,222,048	4,992,224	(4,877,561)	(5,774,957)	(1,353,053)	(1,554,116)
Dividend required for preferred stockholders	(178,541)	(178,541)	(237,326)	(237,326)	-	-
Net income (loss) applicable to common shareholders	7,043,507	4,813,683	(5,114,887)	(6,012,283)	(1,353,053)	(1,554,116)
Other comprehensive loss:						
Translation adjustment	(3,792,148)	(2,394,994)	(55,770)	15,361	101,031	152,401
Comprehensive income (loss)	$ 3,251,359	$ 2,418,689	$ (5,170,657)	$ (5,996,922)	$ (1,252,022)	$ (1,401,715)
Net income (loss) per share:						
Basic	$ 0.29	$ 0.20	$ (0.28)	$ (0.33)	$ (0.09)	$ (0.11)
Diluted	$ 0.28	$ 0.19	$ (0.28)	$ (0.33)	$ (0.09)	$ (0.11)
Weighted average number of shares outstanding						
Basic	24,118,538	24,118,538	18,189,590	18,189,590	14,567,007	14,567,007
Diluted	25,997,049	25,997,049	18,189,590	18,189,590	14,567,007	14,567,007