NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
NetSol Technologies, Inc. and subsidiaries
Calabasas, California

We have audited the accompanying consolidated balance sheets of NetSol Technologies, Inc. and subsidiaries (The "Company") as of June 30, 2012 and 2011, and the related consolidated statements of operations and comprehensive losses, equity and cash flows for each of years in the two-year period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NetSol Technologies, Inc. and subsidiaries as of June 30, 2012 and 2011 and the results of its consolidated operations and comprehensive loss, equity and cash flows for each of years in the two-year period then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NetSol Technologies, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 4, 2012 expressed an adverse opinion.

Kabani & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Los Angeles, CA
September 5, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
NetSol Technologies, Inc. and its subsidiaries
Calabasas, California

We have audited NetSol Technologies, Inc. and its subsidiaries' (the "Company") internal control over financial reporting as of June 30, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The Company did not maintain effective controls over ensuring that accounting staff and the Company's CFO had sufficient technical accounting knowledge relating to U.S. GAAP financial reporting. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2012 consolidated financial statements, and this report does not affect our report dated September 4, 2012 on those consolidated financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, NetSol Technologies, Inc. and its subsidiaries has not maintained effective internal control over financial reporting as of June 30, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Kabani & Company, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Los Angeles, CA
September 5, 2012

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of June 30,

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	$ 7,599,607	$ 4,172,802
Restricted cash	141,231	5,700,000
Accounts receivable, net	13,757,637	15,062,502
Revenues in excess of billings	12,131,329	7,601,230
Other current assets	2,648,302	2,053,904
Total current assets	36,278,106	34,590,438
Property and equipment, net	16,912,795	16,014,461
Intangible assets, net	28,502,983	25,602,195
Goodwill	9,653,330	9,439,285
Total intangibles	38,156,313	35,041,480
Total assets	$ 91,347,214	$ 85,646,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,869,355	$ 4,730,027
Current portion of loans and obligations under capitalized leases	1,896,238	7,062,535
Other payables - acquisitions	103,226	103,226
Unearned revenues	2,704,661	2,653,460
Convertible notes payable , current portion	2,809,093	2,745,524
Loans payable, bank	2,116,402	2,319,377
Common stock to be issued	105,575	400,700
Total current liabilities	13,604,550	20,014,849
Obligations under capitalized leases, less current maturities	260,107	285,472
Convertible notes payable less current maturities	936,364	-
Long term loans; less current maturities	1,551,541	434,884
Total liabilities	16,352,562	20,735,205
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 9,500,000 shares authorized; 7,513,745 & 5,553,186 issued and outstanding as of June 30, 2012 and 2011	75,137	55,532
Additional paid-in-capital	106,101,165	97,886,492
Treasury stock	(415,425)	(396,008)
Accumulated deficit	(31,684,399)	(34,130,944)
Stock subscription receivable	(2,119,488)	(2,198,460)
Other comprehensive loss	(12,361,759)	(8,805,922)
Total NetSol shareholders' equity	59,595,231	52,410,690
Non-controlling interest	15,399,421	12,500,484
Total stockholders' equity	74,994,652	64,911,174
Total liabilities and stockholders' equity	$ 91,347,214	$ 85,646,379

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the year ended June 30,

	2012	2011
Net Revenues:		
License fees	13,369,701	11,284,472
Maintenance fees	7,866,930	7,488,388
Services	18,538,893	17,774,714
Total net revenues	39,775,524	36,547,574
Cost of revenues:		
Salaries and consultants	10,236,109	8,716,495
Travel	1,273,259	1,044,766
Repairs and maintenance	373,359	307,115
Insurance	145,351	126,584
Depreciation and amortization	3,528,229	3,108,286
Other	2,721,716	1,500,880
Total cost of revenues	18,278,023	14,804,126
Gross profit	21,497,501	21,743,448
Operating expenses:		
Selling and marketing	3,130,379	3,016,402
Depreciation and amortization	1,113,758	1,180,226
Bad debt expense	124,291	367,064
Salaries and wages	4,191,593	3,347,896
Professional services, including non-cash compensation	993,058	806,212
Lease abandonment charges	-	(858,969)
General and adminstrative	4,679,840	3,719,796
Total operating expenses	14,232,919	11,578,627
Income from operations	7,264,582	10,164,821
Other income and (expenses)		
Loss on sale of assets	(18,979)	(21,461)
Interest expense	(823,684)	(863,707)
Interest income	82,039	154,856
Gain on foreign currency exchange transactions	404,708	1,115,647
Share of net loss from equity investment	(300,000)	(220,506)
Beneficial conversion feature	(179,576)	(453,989)
Other (expense)	275,565	(52,149)
Total other income (expenses)	(559,927)	(341,309)
Net income before income taxes	6,704,655	9,823,512
Income taxes	(55,384)	(120,542)
Net income after tax	6,649,271	9,702,970
Non-controlling interest	(4,202,726)	(3,974,882)
Net income attibutable to NetSol	2,446,545	5,728,088
Other comprehensive income (loss):		
Translation adjustment	(5,308,958)	293,766
Comprehensive income (loss)	(2,862,414)	6,021,854
Comprehensive loss attributable to non controlling interest	(1,753,122)	(116,071)
Comprehensive income (loss) attributable to NetSol	(1,109,292)	6,137,925
Net income per share:		
Basic	$ 0.39	$ 1.18
Diluted	$ 0.39	$ 1.16
Weighted average number of shares outstanding		
Basic	6,217,842	4,854,320
Diluted	6,244,185	4,956,819
Amounts attributable to NetSol common shareholders		
Net income / (loss)	$ 2,446,545	$ 5,728,088

(continued)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Equity
For the year ended June 30,

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Shares	Accumulated Deficit	Stock Sub-scriptions Receivable	Shares to be Issued	Other Compre-hensive Loss	Non Controling Interest	Total Stockholders' Equity
Balance at June 30, 2010	3,710,339	$ 37,104	$ 86,002,647	$ (396,008)	$ (39,859,032)	$ (2,007,960)	$ -	$ (8,396,085)	$ 10,422,554	45,803,220
Excercise of common stock options	177,100	1,771	1,361,779	-	-	(183,500)	125,000	-	-	1,305,050
Excercise of common stock warrants	338,439	3,384	306,616	-	-	-	-	-	-	310,000
Common stock issued for:										
Cash	510,676	5,107	4,101,143	-	-	(7,000)	-	-	-	4,099,250
Services	90,306	903	849,140	-	-	-	36,175	-	-	886,218
Conversion of convertible note	700,810	7,008	4,796,331	-	-	-	-	-	-	4,803,339
Payment of interest on convertible note	25,516	255	191,553	-	-	-	-	-	-	191,808
Equity component shown as current liability at										
June 30, 2010	-	-	-	-	-	-	239,525	-	-	239,525
June 30, 2011	-	-	-	-	-	-	(400,700)	-	-	(400,700)
Fair market value of options issued	-	-	459,174	-	-	-	-	-	-	459,174
Acqusition of non controlling interest in subsidiary	-	-	(181,891)	-	-	-	-	-	(489,569)	(671,460)
Dividend to non controlling interest	-	-	-	-	-	-	-	-	(1,291,313)	(1,291,313)
Foreign currency translation adjusts	-	-	-	-	-	-	-	(409,837)	(116,070)	(525,907)
Net income for the year	-	-	-	-	5,728,088	-	-	-	3,974,882	9,702,970
Balance at June 30, 2011	5,553,186	$ 55,532	$ 97,886,492	$ (396,008)	$ (34,130,944)	$ (2,198,460)	$ -	$ (8,805,922)	$ 12,500,484	$ 64,911,174

(continued)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Equity
For the year ended June 30,

	Common Stock		Additional Paid-in	Treasury	Accumulated	Stock Sub-scriptions	Shares to	Other Compre-hensive	Non Controling	Total Stockholders'
	Shares	Amount	Capital	Shares	Deficit	Receivable	be Issued	Loss	Interest	Equity
Balance at June 30, 2011	5,553,186	$ 55,532	$ 97,886,492	$ (396,008)	$ (34,130,944)	$ (2,198,460)	$ -	$ (8,805,922)	$ 12,500,484	64,911,174
Excercise of common stock options	231,259	2,312	964,465	-	-	78,972	(125,000)	-	-	920,749
Common stock issued for:										
Cash	1,667,500	16,675	5,503,067	-	-	-		-	-	5,519,742
Services	49,300	493	386,078	-	-	-	(170,125)	-	-	216,446
Settlement of liabilities	12,500	125	49,875	-	-	-	-	-	-	50,000
Purchase of Treasury Shares	-	-	-	(19,417)	-	-	-	-	-	(19,417)
Equity component shown as current liability at										
June 30, 2011	-	-	-	-	-	-	400,700	-	-	400,700
June 30, 2012	-	-	-	-	-	-	(105,575)	-	-	(105,575)
Fair market value of options issued	-	-	1,291,523	-	-	-	-	-	-	1,291,523
Acqusition of non controlling interest in subsidiary	-	-	-	-	-	-	-	-	792,351	792,351
Dividend to non controlling interest	-	-	-	-	-	-	-	-	(341,567)	(341,567)
Beneficial conversion feature	-	-	19,665	-	-	-	-	-	-	19,665
Foreign currency translation adjusts	-	-	-	-	-	-	-	(3,555,837)	(1,754,573)	(5,310,410)
Net income for the year	-	-	-	-	2,446,545	-	-		4,202,726	6,649,271
Balance at June 30, 2012	7,513,745	$ 75,137	$ 106,101,165	$ (415,425)	$ (31,684,399)	$ (2,119,488)	$ -	$ (12,361,759)	$ 15,399,421	$ 74,994,652

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the year ended June 30,

	For the Year Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 6,649,271	$ 9,702,970
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,641,987	4,288,512
Provision for bad debts	192,250	367,064
Gain on settlement of finance lease	(110,990)	-
Share of net loss from investment under equity method	300,000	220,506
Loss on sale of assets	18,979	21,462
Gain on settlement of lease abandonment provision	-	(858,969)
Stock issued for interest on notes payable	-	191,808
Stock issued for services	216,446	886,218
Fair market value of warrants and stock options granted	453,100	459,174
Beneficial conversion feature	179,577	453,989
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	1,774,837	(3,422,252)
(Increase) decrease in other current assets	(5,124,497)	1,987,996
Decrease in accounts payable and accrued expenses	(1,078,245)	(376,287)
Net cash provided by operating activities	8,112,715	13,922,191
Cash flows from investing activities:		
Purchases of property and equipment	(4,912,322)	(9,085,148)
Sales of property and equipment	44,690	313,935
Purchase of treasury stock	(19,417)	-
Purchase of non-controlling interest in subsidiary	-	(671,460)
Short-term investments held for sale	-	(256,522)
Investment under equity method	(100,000)	-
Acquisition, net of cash acquired	(253,192)	-
Increase in intangible assets	(6,167,105)	(8,096,401)
Net cash used in investing activities	(11,407,346)	(17,795,596)
Cash flows from financing activities:		
Proceeds from sale of common stock	5,743,300	4,099,250
Proceeds from the exercise of stock options and warrants	728,500	1,615,050
Proceeds from convertible notes payable	4,000,000	-
Payments on convertible notes payable	(2,758,330)	-
Restricted cash	5,558,769	-
Dividend Paid	(341,657)	(1,291,313)
Bank overdraft	59,913	39,026
Proceeds from bank loans	4,190,395	2,969,146
Payments on bank loans	-	(46,033)
Payments on capital lease obligations & loans - net	(8,089,139)	(3,118,344)
Net cash provided by financing activities	9,091,751	4,266,782
Effect of exchange rate changes in cash	(2,370,315)	(296,121)
Net increase in cash and cash equivalents	3,426,805	97,256
Cash and cash equivalents, beginning of year	4,172,802	4,075,546
Cash and cash equivalents, end of year	$ 7,599,607	$ 4,172,802

(continued)

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the year ended June 30,

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$ 822,267	$ 1,043,065
Taxes	$ 29,943	$ 5,725
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Stock issued against the payment of vendors	$ 50,000	$ -
Stock issued for the conversion of notes payable	$ -	$ 4,803,339
Purchase of property and equipment under capital lease	$ -	$ 492,567

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

NetSol Technologies, Inc. and subsidiaries(collectively, the "Company"), formerly known as NetSol International, Inc. and Mirage Holdings, Inc., was incorporated under the laws of the State of Nevada on March 18, 1997. During November 1998, Mirage Collections, Inc., a wholly owned and non-operating subsidiary, was dissolved.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) *Principles of Consolidation*

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

<u>Wholly-owned Subsidiaries</u>
NetSol Technologies North America, Inc. ("NTNA")
NetSol Technologies Limited ("NetSol UK")
NetSol-Abraxas Australia Pty Ltd. ("Abraxas")
NetSol Technologies Europe Limited ("NTE")
NTPK (Thailand) Co. Limited ("NTPK Thailand")
NetSol Connect (Private), Ltd. ("Connect")
Vroozi, Inc. ("Vroozi")
NetSol Technologies (Beijing) Co. Ltd. (NetSol Beijing)
<u>Majority-owned Subsidiaries</u>
NetSol Technologies, Ltd. ("NetSol PK")
NetSol Innovation (Private) Limited ("NetSol Innovation")
Virtual Lease Services Holdings Limited ("VLSH")
Virtual Lease Services Limited ("VLS")
Hanover Asset Finance (Ireland) Limited ("HAFL")

The Company consolidates any variable interest entities of which it is the primary beneficiary. Equity investments through which we exercise significant influence over but do not control the investee and are not the primary beneficiary of the investee's activities are accounted for using the equity method. Investments through which we are not able to exercise significant influence over the investee and which do not have readily determinable fair values are accounted for under the cost method. All material inter-company accounts have been eliminated in the consolidation.

(continued)

(B) ***Basis of Presentation***

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC").

(C) ***Use of Estimates***

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

(D) ***Cash and Cash Equivalents and Cash Concentrations***

For purposes of the consolidated statement of cash flows, cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations. The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

(E) ***Restricted Cash***

The Company has certificates of deposits ("CD"s) in various configurations and maturity dates with Habib American Bank. A portion of these CDs are restricted as collateral to secure outstanding balances on an existing line of credit, and become unrestricted to the extent that they are not required for collateralization purposes. As of June 30, 2012 the outstanding balance on the line of credit was $51,231, with a corresponding restriction to the CD balances. The line of credit has a maximum available balance of $2,000,000.

In addition the company has also placed $90,000 in saving account with HSBC as collateral against standby letter of credit issued in by the bank in favor of land lord of new office space.

One of Company's subsidiary also has certificates of deposits with Habib American Bank. These CDs are restricted as collateral to secure outstanding balances on an existing line of credit, and become unrestricted to the extent that they are not required for collateralization purposes. As of June 30, 2012 the outstanding balance on the line of credit was $Nil, with a corresponding restriction to the CD balances. The line of credit has a maximum available balance of $500,000.

(F) ***Allowance for Doubtful Accounts***

The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management regularly reviews the composition of accounts receivable and analyzes customer credit worthiness, customer concentrations, current economic trends and changes in customer payment patterns. Reserves are recorded primarily on a specific identification basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is

(continued)

considered remote. As of June 30, 2012 and 2011, the Company had recorded allowance for doubtful accounts of $977,933 and $2,717,745, respectively.

(G) ***Revenues in Excess of Billings***

Revenues in excess of billings represent the total of the project to be billed to the customer over the revenues recognized under the percentage of completion method. As the customer is billed under the terms of their contract, the corresponding amount is transferred from this account to "Accounts Receivable."

(H) ***Property and Equipment***

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation is computed using various methods over the estimated useful lives of the assets, ranging from three to ten years.

The Company capitalizes costs of materials, consultants, and payroll and payroll-related costs for employees incurred in developing internal-use computer software. These costs are included with "Computer equipment and software." Costs incurred during the preliminary project and post-implementation stages are charged to general and administrative expense as incurred.

(I) ***Impairment of Long-Lived Assets***

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

(J) ***Intangible Assets***

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

(K) ***Software Development Costs***

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

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

(L) ***Goodwill***

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

(M)***Fair Value of Financial Instruments***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether or not the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's financial instruments primarily consist of cash and cash equivalents, accounts receivable, and accounts payable.

As of the balance sheet dates, the estimated fair values of the financial instruments were not materially different from their carrying values as presented on the balance sheet. This is primarily attributed to the short maturities of these instruments.

(N) *Revenue Recognition*

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

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

(O) *Multiple Element Arrangements*

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

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

Net revenues by our various products and services provided for the year ended June 30, 2012 and 2011 are as follows:

	2012	2011
Licensing Fees	$ 13,369,701	$ 11,284,472
Maintenance Fees	7,866,930	7,488,388
Services	18,538,893	17,774,714
Total	$ 39,775,524	$ 36,547,574

(P) *Unearned Revenue*

Unearned revenue represents billings in excess of revenue earned on contracts and are recognized on a pro-rata basis over the life of the contract. Unearned revenue was $2,704,661 and $2,653,460 as of June 30, 2012 and June 30, 2011 respectively.

(Q) *Advertising Costs*

The Company expenses the cost of advertising as incurred. Advertising costs for the years ended June 30, 2012 and 2011 were $225,870 and $246,254 respectively.

(continued)

(R) ***Share-Based Compensation***

The Company measures stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the applicable vesting period of the stock award (generally four to five years) using the straight-line method.

(S) ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

(T) ***Foreign Currency Translation***

Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are recorded to other comprehensive income.

(U) ***Statement of Cash Flows***

The Company's cash flows from operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

(V) ***Segment Reporting***

The Company defines operating segments as components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performances. The Company allocates its resources and assesses the performance of its sales activities based on geographic locations of its subsidiaries (see Note 20).

(W) ***Reclassifications***

Certain 2011 balances have been reclassified to conform to the 2012 presentation.

(X) ***New Accounting Pronouncements***

In December 2011, the FASB issued guidance on offsetting (netting) assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The new guidance is effective for annual periods beginning after January 1, 2013.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is less than its carrying amount, the two-step goodwill impairment test is not required. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted.

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. The new guidance is effective for annual periods beginning after December 15, 2011. In December 2011, the FASB issued a deferral of certain portion of this guidance.

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance is effective for annual periods beginning after December 15, 2011.

NOTE 3 – ACQUISITION

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

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

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

(continued)

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

The amounts of acquired entities revenue and net income included in the Company's consolidated statements of operations for the year ended June 30, 2012, and the revenue and net income (loss) of the combined entity had the date of acquisitions been July 1, 2011, or July 1, 2010, are as follows:

	Revenue	Net income (loss)
Actual for the year from date of acquisition to June 30, 2012	39,775,524	2,446,545
Supplemental pro forma from Jul 1, 2011 through June 30-2012	40,258,724	2,503,109
Supplemental pro forma from Jul 1, 2010 through June 30-2011	38,089,359	5,793,219

NOTE 4 – EARNINGS PER SHARE

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

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

For the year ended June 30, 2012	Net Income	Shares	Per Share
Basic income per share:	$ 2,446,545	6,217,842	$ 0.39
Effect of dilutive securities			
Stock options		-	
Warrants		26,343	
Diluted loss per share	$ 2,446,545	6,244,185	$ 0.39

For the year ended June 30, 2011	Net Income	Shares	Per Share
Basic income per share:	$ 5,728,088	4,854,320	$ 1.18
Effect of dilutive securities			
Stock options		89,960	
Warrants		12,539	
Diluted income per share	$ 5,728,088	4,956,819	$ 1.16

NOTE 5 – OTHER COMPREHENSIVE INCOME & FOREIGN CURRENCY

The accounts of NetSol UK, NTE, VLSH and VLS use the British Pound; HAFL uses the Euro; NetSol PK, Connect, and NetSol Innovation use Pakistan Rupees; NTPK Thailand uses Thai Baht; Abraxas uses the Australian dollar; and NetSol Beijing uses Chinese Yuan as the functional currencies. NetSol Technologies, Inc., and its subsidiaries, NTNA and Vroozi, use the U.S. dollar as the functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date, whereas operating results are translated at the average exchange rate throughout the period. Accumulated translation losses are classified as an item of accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet were $12,361,759 and $8,805,922 as of June 30, 2012 and 2011 respectively. During the year ended June 30, 2012 and 2011, comprehensive loss in the consolidated statements of operations included NetSol's share of translation loss of $3,555,836 and translation gain of $409,837 respectively.

NOTE 6 – MAJOR CUSTOMERS

During fiscal year ended June 30, 2012, there was no single customer who represented 10% or more of the Company's total revenue.

The Company is a strategic business partner for Daimler Financial Services (which consists of a group of many companies in different countries), which accounts for approximately 19.72% and 20.58% of revenue, Toyota Motors (which consists of a group of many companies in different countries) accounts for approximately 2.62% and 5.40% of revenue, and Nissan (which consists of a group of many companies in different countries) accounts for approximately 7.31% and 4.10% of revenue for the fiscal year ended June 30, 2012 and 2011, respectively. Accounts receivable at June 30, 2012 for these companies were $4,016,335, $257,867 and $918,333, respectively. Accounts receivable at June 30, 2011 for these companies were $1,526,762, $1,080,318 and $820,206.

NOTE 7 – OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As of June 30 2012	As of June 30 2011
Prepaid Expenses	$ 596,180	$ 245,194
Advance Income Tax	763,147	726,979
Employee Advances	24,026	53,404
Security Deposits	178,428	161,263
Tender Money Receivable	111,437	133,166
Other Receivables	505,746	535,597
Other Assets	469,338	198,301
Total	$ 2,648,302	$ 2,053,904

(continued)

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment, net, consisted of the following:

	As of June 30 2012	As of June 30 2011
Office furniture and equipment	$ 1,917,221	$ 1,179,993
Computer equipment	14,986,148	13,463,560
Assets under capital leases	1,877,145	2,024,282
Building	2,133,174	2,337,758
Land	2,044,003	2,240,036
Capital work in progress	4,163,730	2,659,750
Autos	648,305	794,617
Improvements	230,759	162,896
Subtotal	28,000,485	24,862,892
Accumulated depreciation	(11,087,690)	(8,848,431)
	$ 16,912,795	$ 16,014,461

For the years ended June 30, 2012 and 2011, depreciation expense totaled $2,875,883 and $2,013,388, respectively. Of these amounts, $1,879,358 and $1,450,723 are reflected as part of cost of revenues as of June 30, 2012 and 2011, respectively.

The Company's capital work in progress consists of ongoing enhancements to its facilities and infrastructure as necessary to meet the Company's expected long-term growth needs. The Company recorded capitalized interest of $331,145 and 278,308 as of June 30, 2012 and 2011, respectively.

Assets acquired under capital leases were $1,877,145 and $2,024,282 as of June 30, 2012 and 2011, respectively. Accumulated amortization related to these leases were $900,790 and $807,562 for the years ended June 30, 2012 and 2011, respectively.

NOTE 9 – INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of June 30, 2012	As of June 30, 2011
Product licenses	$ 42,072,045	$ 38,226,400
Customer lists	6,052,377	5,804,057
Technology	242,702	-
	48,367,124	44,030,457
Accumulated amortization	(19,864,141)	(18,428,262)
Intangible assets, net	$ 28,502,983	$ 25,602,195

(A) Product Licenses

Product licenses include internally-developed original license issues, renewals, enhancements, copyrights, trademarks, and trade names. Product licenses include unamortized software development and enhancement costs of $18,412,165. Product licenses are being amortized on a straight-line basis over their respective lives, which is currently a weighted average of approximately 8 years.

(continued)

Amortization expense for the year ended June 30, 2012 and 2011 was $1,536,819 and $1,769,149, respectively.

(B) Customer Lists

On October 31, 2008, the Company entered into an agreement to purchase the rights to the customer list of Ciena Solutions, LLC, a California limited liability company (“Ciena”). Under the terms of the agreement, the total consideration for these rights included an initial payment of $350,000 (plus interest of $2,963), and deferred consideration to be paid in cash and the Company’s common stock based on the operational results of Ciena, and certain other factors, over a four-year fiscal period. Each fiscal period is measured from July 1 to June 30 with fiscal period one being the period from July 1, 2008 to June 30, 2009. No other assets or liabilities were acquired by the Company as a result of this transaction.

As a result of operational losses of Ciena in the first three fiscal periods, 2009 2010 and 2011, respectively, the first three annual deferred consideration installment payments were determined to be zero.

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

Customer lists are being amortized based on a straight-line basis, which approximates the anticipated rate of attrition, which is currently a weighted average of approximately 5 years. Amortization expense for the year ended June 30, 2012 and 2011 was $145,808 and $501,860, respectively.

(C) Technology

On October 4, 2011, the company entered into an agreement to acquire a UK based company, Virtual Leasing Services Limited, through one of its subsidiaries. As a result of this acquisition, the Company recorded $242,702 of existing technology. Technology assets are being amortized on a straight-line basis over their respective lives, which is currently a weighted average of approximately 5 years. Amortization expense for the year ended June 30, 2012 and 2011 was $36,405 and Nil.

(D) Future Amortization

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

Year ended;	
June 30, 2013	2,105,639
June 30, 2014	1,949,200
June 30, 2015	1,556,080
June 30, 2016	1,052,804
June 30, 2017	827,466
Thereafter	21,095,270

(continued)

NOTE 10 –GOODWILL

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

	As of June 30 2012	As of June 30 2011
Asia Pacific	$ 1,303,372	$ 1,303,372
Europe	3,685,858	3,471,813
North America	4,664,100	4,664,100
Total	$ 9,653,330	$ 9,439,285

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

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

NOTE 11 –INVESTMENT UNDER EQUITY METHOD

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

The Company's investment in equity for the year ended June 30, 2012 and 2011 is as follows:

Net book value at June 30, 2010	$ 200,506
Net loss for the year ended June 30, 2011	(542,929)
NetSol's share (50.1%)	(272,007)
Loss adjusted against investment	(200,506)
Net book value at June 30, 2011	$ -
Investment during the period	100,000
Net loss for the year ended June 30, 2012	(503,303)
NetSol's share (50.1%)	(252,155)
Unabsorbed losses brought forward	(51,731)
Total loss	(303,886)
Loss adjusted against investment	(100,000)
Loss adjusted against advance to investee	(200,000)
Net book value at June 30, 2012	$ -

NOTE 12 –ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of June 30 2012	As of June 30 2011
Accounts Payable	$ 1,278,452	$ 1,348,453
Accrued Liabilities	1,778,414	2,364,233
Accrued Payroll	17,097	148,565
Accrued Payroll Taxes	158,626	216,485
Interest Payable	326,746	380,808
Deferred Revenues	32,463	32,066
Taxes Payable	277,557	239,417
Total	$ 3,869,355	$ 4,730,027

(continued)

NOTE 13 –DEBTS

(A) Loans and Leases Payable

Notes and leases payable consisted of the following:

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

Name	As of June 30 2011	Current Maturities	Long-Term Maturities
D&O Insurance	$ 21,429	$ 21,429	$ -
Habib Bank Line of Credit	5,404,608	5,404,608	-
Bank Overdraft Facility	254,502	254,502	-
Term Finance Facility	869,767	434,883	434,884
Subsidiary Capital Leases	1,232,585	947,113	285,472
	$ 7,782,891	$ 7,062,535	$ 720,356

The Company finances Directors' and Officers' ("D&O") liability insurance as well as Errors and Omissions ("E&O") liability insurance, for which the total balances are renewed on an annual basis and as such are recorded in current maturities. The interest rate on the insurance financing was 0.42% and 0.49% as of June 30, 2012 and 2011, respectively. Interest paid during the period ended June 30, 2012 and 2011 was nominal

In April 2008, the Company entered into an agreement with Habib American Bank to secure a line of credit to be collateralized by Certificates of Deposit held at the bank. The interest rate on this line of credit is variable and was 1.99% and 2% as of June 30, 2012 and 2011, respectively. Interest paid during the year ended June 30, 2012 and 2011 was $41,140 and $118,148, respectively. During the period ended June 30, 2012, the Company redeemed its certificates of deposits and paid off the majority of line of credit.

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

In June 2012, the Company's subsidiary, NTNA entered into an agreement with Habib American Bank to secure a line of credit up to $500,000 to be collateralized by Certificates of Deposit of same value held at the bank. The interest rate on this line of credit is variable and was 1.99% as of June 30, 2012. No interest was paid during the year as line of credit was unused by the end of June 30, 2012.

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, or approximately $312,340. The annual interest rate is 4.7% over the bank's sterling base rate, which was 5.2% and 5.00% as of June 30, 2012 and 2011, respectively.

In October 2011, the Company's subsidiary, NTE, entered into a loan agreement with HSBC Bank to finance the acquisition of 51% of controlling interest in Virtual Leasing Services Limited. HSBC Bank guaranteed the loan up to a limit of £1,000,000, or approximately $1,561,700 for a period of 5 years with monthly payments of £18,420, or $28,767 approximately. The interest rate was 4% which is 3.5% above bank sterling base rate. The subsidiary has used this facility up to £875,741, or $1,367,644, of which £654,698, or $1,022,441, was shown as long term and remaining £221,043, or $345,203, as current maturity. Interest expense, for the period ended June 30, 2012, was £29,184, or $36,744.

The Company's subsidiary, NetSol PK, entered into two different term finance facilities from Askari Bank to finance the construction of a new building. The total aggregate amount of these facilities are Rs. 162,500,000 or approximately $1,719,577 (secured by the first charge of Rs. 580 million or approximately $6.13 million over the land, building and equipment of the company). The interest rate is 2.75% above the six-month Karachi Inter Bank Offering Rate. As on June 30, 2011, the subsidiary had used Rs. 75,000,000 or approximately $869,767 of which $434,484 was shown as long term liabilities and the remainder of $434,483 as current maturity. As of the year ended June 30, 2012, the Company has used a total of Rs. 100,000,000 or approximately $1,058,201 of which $529,101 is shown as long term liabilities and the remainder of $529,100 as current maturity.

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

Following is the aggregate minimum future lease payments under capital leases for the years-ended June 30, 2012 and 2011:

	As of June 30 2012	As of June 30 2011
Minimum Lease Payments		
Due FYE 6/30/12	$ -	$ 1,010,836
Due FYE 6/30/13	629,251	209,260
Due FYE 6/30/14	215,953	115,346
Due FYE 6/30/15	71,218	-
Total Minimum Lease Payments	916,422	1,335,442
Interest Expense relating to future periods	(83,621)	(102,857)
Present Value of minimum lease payments	832,801	1,232,585
Less: Current portion	(572,694)	(947,113)
Non-Current portion	$ 260,107	$ 285,472

(continued)

Following is a summary of property and equipment held under capital leases as of June 30, 2012 and 2011:

	As of June 30 2012	As of June 30 2011
Computer Equipment and Software	$ 702,637	$ 518,911
Furniture and Fixtures	403,439	769,106
Vehicles	468,853	434,049
Building Equipment	302,216	302,216
Total	1,877,145	2,024,282
Less: Accumulated Depreciation	(900,790)	(807,562)
Net	$ 976,355	$ 1,216,720

Interest expense for the year ended June 30, 2012 and 2011 was $69,236 and $46,720, respectively.

(B) Loans Payable – Bank

The Company's subsidiary, NetSol Technologies Limited, has a loan with a bank, secured by the Company's assets. This loan consisted of the following as of June 30, 2012 & 2011:

For the year ended June 30, 2012:

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

For the year ended June 30, 2011:

TYPE OF LOAN	MATURITY DATE	INTEREST RATE	BALANCE USD
Export Refinance	Every 6 months	11.00%	$ 2,319,378
Total			$ 2,319,378

NOTE 14 –OTHER PAYABLE AND COMMON STOCK TO BE ISSUED

On June 30, 2006, the Company acquired McCue Systems, Inc. ("McCue"), a California corporation (subsequently renamed as NetSol Technologies North America, Inc.) The total purchase price was $7,080,385, including $3,784,635 of cash and 171,233 shares of the Company's common stock. Of the total purchase price, the accompanying consolidated financial statements include certain amounts payable to McCue shareholders that have not been located as of the date of this report.

As of the year ended June 30, 2012 and June 30, 2011, the remaining cash due of $103,226 is shown as “Other Payable” and the remaining stock to be issued of 4,670 shares at an average price of $18.90 is shown in “Common stock to be issued” in the accompanying consolidated financial statements.

NOTE 15 –CONVERTIBLE NOTE PAYABLE

The net outstanding balance of convertible notes as of June 30, 2012 and 2011 is as follows:

Issue Date	Balance net of BCF @ 6/30/12	Current Portion	Long Term	Maturity Date
Sep-11	3,745,457	2,809,093	936,364	Sep-13
Total	3,745,457	2,809,093	936,364	

Issue Date	Balance net of BCF @ 6/30/11	Current Portion	Long Term	Maturity Date
Jul-08	2,745,524	2,745,524	-	Jul-11
Total	2,745,524	2,745,524	-	

For the year-ended June 30, 2012 and 2011, total interest accrued on convertible notes was $461,262 and $628,801, respectively.

Principle commitments related to the convertible notes for the next five years is as follows:

FYE 6-30-2013	$ 2,809,093
FYE 6-30-2014	$ 936,364

(A) 2008 Convertible Debt

In July 2008, the Company issued $6,000,000 of 7% convertible debt maturing in 3 years (the “2008 Notes”), with a conversion price of $3.00 per share.

In January 2009, the 2008 Notes were amended to remove certain anti-dilution protection provisions and participation rights in future filings in exchange for a reduction in the conversion rate to $0.78, and $1,000,000 in cash, payable to the debt holders in 4 quarterly installments. Pursuant to the terms of the amendment, the Company recorded a beneficial conversion feature (“BCF”) in the amount of $230,769 which is being amortized as a component of interest expense over the maturity period. The related liability of $1,000,000 was recorded as a component of interest expense for the year-ended June 30, 2009.

In August 2009, the Company amended the 2008 Notes by reducing the conversion rate to $6.3, and recorded an additional BCF of $715,518, which is being amortized as a component of interest expense

(continued)

over the maturity period. During the year-ended June 30, 2010, Holders of the 2008 Notes elected to convert principal and interest due thereon into a total of 251,311 shares of common stock. These conversions reduced the total principal of the 2008 Notes to $4,450,000. During the year ended June 30, 2011, Holders of the 2008 Note further elected to convert the principal and interest due thereon into a total of 274,404 shares of common stock. These conversions reduced the principal of the 2008 Note to $2,758,330 and unamortized balance of BCF was $12,806 as of June 30, 2011.

During the year ended June 30, 2012, the remaining balance of 2008 Note was fully paid along with interest due thereon out of the proceeds of a new 2011 Convertible Note.

(B) 2011 Convertible Debt

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

NOTE 16 –INCOME TAXES

The Company is incorporated in the State of Nevada and registered to do business in the State of California and has operations in primarily three tax jurisdictions - the United Kingdom ("UK"), Pakistan and the United States ("US").

Consolidated pre-tax income as of June 30, 2012 and 2011 consists of the following:

		2012		2011
US operations	$	(3,614,853)	$	(17,122)
Foreign operations		10,319,508		9,840,633
	$	6,704,655	$	9,823,511

The components of the provision for income taxes as of June 30, 2012 and 2011 are as follows:

	2012	2011
Current:		
Federal	$ -	$ 14,762
State and Local	-	21,788
Foreign	55,384	83,992
Deferred:		
Federal	-	-
State and Local	-	-
Foreign	-	-
Provision for income taxes	$ 55,384	$ 120,542

A reconciliation of taxes computed at the statutory federal income tax rate to income tax expense (benefit) as of June 30, 2012 and 2011 is as follows:

	2012		2011	
Income taxes (benefit) at statutory rate	$ 2,309,119	34.0%	$ 1,988,533	34.0%
State income taxes, net of federal tax benefit	418,384	6.2%	103,375	1.8%
Foreign earnings taxed at different rates	(3,615,004)	-52.73%	(1,336,651)	-22.9%
Change in valuation allowance for deferred tax assets	356,979	5.3%	(1,163,238)	-19.9%
Non-deductible expenses	585,906	8.06%	513,760	8.8%
Alternative minimum tax	-	0.0%	14,763	0.3%
Provision for income taxes	$ 55,384	0.86%	$ 120,542	2.1%

Deferred income tax assets and liabilities as of June 30, 2011 and 2010 consist of tax effects of temporary differences related to the following:

Deferred tax asset:	2012	2011
Other	$ 88,590	$ 102,356
Fixed Assets	(33,080)	(148,278)
AMT Credit	14,763	14,763
Intangible assets	(40,322)	(70,564)
Net operating loss carry forwards	10,493,537	10,268,233
Net deferred tax assets	10,523,488	10,166,510
Valuation allowance for deferred tax assets	(10,523,488)	(10,166,510)
Net deferred tax assets	$ -	$ -

(A) ***United States of America***

The Company has established a full valuation allowance as management believes it is more likely than not that these assets will not be realized in the future. The valuation allowance decreased by $470,734 for the year ended June 30, 2012 mainly due to adjusting the Company's net operating loss carry forwards for the current year operating loss.

At June 30, 2012, federal and state net operating loss carry forwards were $29,028,547 and $3,114,464 respectively. Federal net operating loss carry forwards begin to expire in 2020, while state net operating loss carry forwards begin to expire in 2015. Due to both historical and recent changes in the capitalization structure of the Company, the utilization of net operating losses may be limited pursuant to section 382 of the Internal Revenue Code.

As of June 30, 2012, the Company does not have any unrecognized tax benefits related to various federal and state income tax matters. The Company will recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense.

The Company is subject to U.S. federal income tax, as well as various state and foreign jurisdictions. The Company is currently open to audit under the statute of limitations by the federal and state jurisdictions for the years ending June 30, 2009 through 2012. The Company does not anticipate any material amount of unrecognized tax benefits within the next 12 months.

The cumulative amount of undistributed earnings of foreign subsidiaries that the Company intends to

permanently invest and upon which no deferred US income taxes have been provided is $32,403,645 as of June 30, 2012. The additional US income tax on unremitted foreign earnings, if repatriated, would be offset in part by foreign tax credits. The extent of this offset would depend on many factors, including the method of distribution, and specific earnings distributed.

(B) ***Pakistan***

As of June 30, 2011 the Company's Pakistan subsidiaries had net operating loss carry forwards

which can be carried forward six years to offset future taxable income. The deferred tax assets for the Pakistan subsidiaries at June 30, 2011 consists mainly of net operating loss carry forwards in which the Company established a full valuation allowance as the management believes it is more likely than not that these assets will not be realized in the future.

	2012	2011
Net operating loss carry forward	$ 619,549	$ 276,452
Total deferred tax assets	216,842	96,758
Less : valuation allowance	(216,842)	(96,758)
Net deferred tax assets	$ -	$ -

(continued)

(C) ***United Kingdom***

As of June 30, 2012 the Company's UK subsidiaries had net operating loss carry forwards which can be carried forward indefinitely to offset future taxable income. The deferred tax assets for the UK Subsidiaries at June 30, 2012 consists mainly of net operating loss carry forwards in which the Company established a full valuation allowance as the management believes it is more likely than not that these assets will not be realized in the future.

	2012	2011
Net operating loss carry forward	$ 438,900	$ 398,449
Total deferred tax assets	131,670	119,535
Less : valuation allowance	(131,670)	(119,535)
Net deferred tax assets	$ -	$ -

NOTE 17 –STOCKHOLDERS' EQUITY

(A) TREASURY STOCK

On November 11, 2011, the Company announced that it had authorized a stock repurchase program permitting the Company to repurchase up to 250,000 of its shares of common stock over the following 6 months. The shares are to be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion. The Company has repurchased 4,430 shares of common stock from open market against cash consideration of $19,417 during the year ended June 30, 2012. The balance as of June 30, 2012 and 2011 was $415,425 and $396,008 respectively.

(B) Shares Issued for Services to Related Parties

During the year ended June 30, 2012 and 2011, the Company issued a total of 26,000 and 44,250 shares of restricted common stock for services rendered by the officers of the company. The issuances were approved by both the compensation committee and the board of directors. These shares were valued at the fair market value of $159,325 and $528,900, as of June 30, 2012 and 2011, respectively.

The Company recorded an expense of $133,250 and $389,200 against the services rendered by officers during the year ended June 30, 2012 and 2011.

During the year ended June 30, 2012 and 2011, the Company issued a total of 16,000 and 9,000 shares of restricted common stock for services rendered by the independent members of the Board of Directors as part of their board compensation. The issuances were approved by both the compensation committee and the board of directors. These shares were valued at the fair market value of $173,600and $135,300, as of June 30, 2012 and 2011, respectively.

The Company recorded an expense of $40,000 and $135,300 for services rendered by the independent members of the Board of Directors as part of their board compensation during the year ended June 30, 2012 and 2011.

During the year ended June 30, 2012 and 2011, the Company issued a total of 2,500 and 3,270 shares of its common stock to employees as required according to the terms of their employment agreements valued at $12,125 and $33,300, respectively.

(C) Share-Based Payment Transactions

During the year ended June 30, 2012 and 2011, the Company issued a total of 17,300 and 33,786 shares of its common stock for provision of services to unrelated consultants valued at $91,520 and $152,543, respectively.

(D) SHARE ISSUED AGAINST CASH PAYMENTS

During the year ended June 30, 2012, the Company issued 1,667,500 new shares through secondary offering under S3 registration against net proceeds of $5,743,300. The shares were issued at the offering price of $4.0 per share. Aegis Capital Corp. acted as sole book-running manager and underwriters for the offering. The Company also offered Aegis Capital Corp., the right to exercise 5% warrants at an exercise price of 125% of the offering price.

NOTE 18 –INCENTIVE AND NON-STATUTORY STOCK OPTION PLAN

Common stock purchase options and warrants consisted of the following as of June 30, 2012:

OPTIONS:	# of shares	Exercise Price	Aggregated Intrinsic Value
Outstanding and exercisable, June 30, 2010	770,692	$3.00 to $50.00	$ -
Granted	147,100	$6.50 to $12.50	
Exercised	(177,100)	$6.50 to $12.50	
Expired / Cancelled	(48,760)		
Outstanding and exercisable, June 30, 2011	691,932	$30.00 to $50.00	$ 1,637,459
Granted	351,259	$3.00 to $7.50	
Exercised	(231,259)	$3.00 to $12.50	
Expired / Cancelled	(8,499)	$7.50 to $16.50	
Outstanding and exercisable, June 30, 2012	803,433	$30.00 to $50.00	$ -
WARRANTS:			
Outstanding and exercisable, June 30, 2010	476,332	$16.50 to $37.00	$ -
Granted			
Exercised	(387,903)	$3.10	
Expired	(70,606)	$16.80 to $37.00	
Outstanding and exercisable, June 30, 2011	17,823	$3.10 to $37.00	$ 219,119
Granted	246,396	$5.00 to $7.73	
Exercised			
Expired	(2,500)	$18.50 to $37.00	
Outstanding and exercisable, June 30, 2012	261,719	$3.10 to $7.73	$ (30,105)

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

Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Ave Exericse Price
OPTIONS:			
Issued by the Company			
$0.10 - $9.90	270,000	5.45	6.98
$10.00 - $19.90	187,433	3.15	18.94
$20.00 - $29.90	282,000	2.84	26.98
$30.00 - $50.00	64,000	1.55	43.83
Totals	803,433	3.69	19.73
WARRANTS:			
$3.10 - $7.73	261,719	4.24	6.59
Totals	261,719	4.24	6.59

All options and warrants granted are vested and are exercisable as of June 30, 2012. During the fiscal year 2012 and 201, the company granted 351,259 and 147,100 stock options to its employees at the weighted average grant date fair value of $2.26 and $3.0 respectively.

(A) Incentive and Non-Statutory Stock Option Plan

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

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

Options

During the quarter ended September 30, 2011, the Company granted 33,000 options to two employees with an exercise price of $5.0 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $63,763 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 3.13%

Expected life 1 month

Expected volatility 100%

During the quarter ended December 31, 2011, the Company granted 20,000 options to one employee with an exercise price of $5.0 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $13,797 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.3%

Expected life 1 month

Expected volatility 99.85%

(continued)

During the quarter ended December 31, 2011, the Company granted 32,000 options to one employee with an exercise price of $4.0 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $24,890 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.3%

Expected life 1 month

Expected volatility 83.08%

During the quarter ended December 31, 2011, the Company granted 130,000 options to three of its officers with an exercise price of $7.50 per share and an expiration date of 5 Years, vesting quarterly. Using the Black-Scholes method to value the options, the Company will record a total of $585,241 in compensation expense for these options on quarterly bases out of which $146,310 was recorded in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.9%

Expected life 5 Years

Expected volatility 213.21%

During the quarter ended March 31, 2012, the Company granted 20,000 options to one of its employee with an exercise price of $5.0 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $4,897 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.3%

Expected life 1 month

Expected volatility 42.44%

During the quarter ended March 31, 2012, the Company granted 83,333 options to five of its employees with an exercise price of $3.0 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $76,385 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.05%

Expected life 1 month

Expected volatility 59.81%

During the quarter ended June 30, 2012, the Company granted 7,759 options to one of its employee with an exercise price of $3.0 per share and an expiration date of 3 months, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $5,706 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.08%

Expected life 3 month

Expected volatility 35.66%

During the quarter ended June 30, 2012, the Company granted 25,167 options to three of its employee with an exercise price of $3.0 per share and an expiration date of 1 month, vesting immediately. Using the Black-Scholes method to value the options, the Company recorded $17,688 in compensation expense for these options in the accompanying consolidated financial statements. The Black-Scholes option pricing model used the following assumptions:

Risk-free interest rate 0.08%

Expected life 1 month

Expected volatility 35.66%

Warrants

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

(B) Equity Incentive Plan

In May 2011, the shareholders approved the 2011 Equity Incentive Plan (the “2011 Plan”) which provides for the grant of equity-based awards, including options, stock appreciation rights, restricted stock awards or performance share awards or any other right or interest relating to shares or cash, to eligible participants. The aggregate number of shares reserved and available for award under the 2011

(continued)

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

Stock Options

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

Performance Awards

Under the 2011 Plan, a participant may also be awarded a "performance award," which means that the participant may receive cash, stock or other awards contingent upon achieving performance goals established by the Committee. The Committee may also make "deferred share" awards, which entitle the participant to receive our stock in the future for services performed between the date of the award and the date the participant may receive the stock. The vesting of deferred share awards 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 2011 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, 2012, 9,450 shares have been issued under this plan to non- officers employees.

(continued)

NOTE 19 –COMMITMENTS AND CONTINGENCIES

(A) Leases

The Company's headquarters is located in California in approximately 7,210 rentable square feet and a rent of $20,417 per month. The term of the lease is for five years and five months and expires on August 31, 2017. A security deposit of $23,821 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 $175 per month. The Beijing lease is a three-year lease that expires in January 2014. The monthly rent is approximately $10,242. The Bangkok lease is a three years lease expiring in November 2013 with monthly rent of approximately $8,140. The NetSol Europe facilities, located in Horsham, United Kingdom, are leased until June 23, 2021 for an annual rent of approximately $109,319. VLS facilities, located in London, United Kingdom, are leased until October 2015 for an annual rent of approximately $54,660. NTNA relocated to Alameda, California location. The Alameda lease is about to end in November 2012. The monthly rent is $7,148.

The NetSol Connect Karachi lease is a one-year lease that expires on December 2012 and currently is rented at the rate of approximately $1,323 per month. The NetSol Pindi office lease is a one year-lease that expires in April 2013 and currently is rented at the rate of approximately $529 per month.

Upon expiration of its leases, the Company does not anticipate any difficulty in obtaining renewals or alternative space. Rent expense amounted to $1,026,304 and $861,262 for the years ended June 30, 2012 and 2011, respectively.

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

FYE 6/30/13	$	608,307
FYE 6/30/14		553,805
FYE 6/30/15		425,577
FYE 6/30/16		396,986
FYE 6/30/17		386,849

(B) Litigation

As of June 30, 2012 and 2011, to the best knowledge of the Company's management and counsel, there is no material litigation pending or threatened against the Company.

NOTE 20 –SEGMENT INFORMATION 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 operational

(continued)

issues and strategies unique 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 consolidation.

The following table presents a summary of operating information and certain year-end balance sheet information for the years ended June 30, 2012 and 2011:

	2012	2011
Revenues from unaffiliated customers:		
North America	$ 4,552,173	$ 4,223,864
Europe	5,676,392	7,158,145
Asia - Pacific	29,546,959	25,165,565
Consolidated	$ 39,775,524	$ 36,547,574
Operating income (loss):		
Corporate headquarters	$ (3,408,483)	$ (3,762,964)
North America	123,979	1,775,501
Europe	(90,689)	2,705,583
Asia - Pacific	10,639,775	9,446,701
Consolidated	$ 7,264,582	$ 10,164,821
Net income (loss) after taxes and before non-controlling interest:		
Corporate headquarters	$ (4,470,462)	$ (5,043,332)
North America	236,865	1,758,835
Europe	(57,655)	2,601,842
Asia - Pacific	10,940,523	10,385,625
Consolidated	$ 6,649,271	$ 9,702,970
Identifiable assets:		
Corporate headquarters	$ 14,059,781	$ 16,790,104
North America	2,814,769	2,316,781
Europe	5,740,243	4,590,556
Asia - Pacific	68,732,421	61,948,938
Consolidated	$ 91,347,214	$ 85,646,379
Depreciation and amortization:		
Corporate headquarters	$ 82,074	$ 614,063
North America	397,508	459,219
Europe	638,830	710,022
Asia - Pacific	3,523,575	2,505,206
Consolidated	$ 4,641,987	$ 4,288,510
Capital expenditures:		
Corporate headquarters	$ 18,230	$ -
North America	24,693	53,738
Europe	608,226	1,013
Asia - Pacific	4,261,174	9,030,397
Consolidated	$ 4,912,322	$ 9,085,148

(continued)

Geographic Information

Disclosed in the table below is geographic information for each country that comprised greater than five percent of our total revenues for fiscal 2012 and 2011.

	June 30, 2012		June 30, 2011	
	Revenue	**Long-lived Assets**	**Revenue**	**Long-lived Assets**
China	$ 10,795,330	$ 135,721	$ 11,063,164	$ 134,202
Thailand	5,639,182	665,542	5,127,971	154,784.00
USA	5,777,841	11,275,337	5,829,118	10,896,290
UK	6,544,662	1,904,000	5,300,942	1,044,289
Pakistan & India	2,214,905	41,087,552	3,211,605	38,824,246
Australia & New Zealand	1,914,654	956	1,995,786	2,130
Other Countries	6,888,950	-	4,018,988	-
Total	**$ 39,775,524**	**$ 55,069,108**	**$ 36,547,574**	**$ 51,055,941**

NOTE 21 –NON-CONTROLLING INTEREST IN SUBSIDIARY

The Company had non-controlling interests in several of its subsidiaries. The balance of non-controlling interest as of June 30, 2012 and 2011 was as follows:

SUBSIDIARY	Non Controlling Interest %	Non-Controlling Interest at June 30, 2012
NetSol PK	39.48%	$ 13,600,492
NetSol-Innovation	49.90%	1,076,832
VLS	49.00%	722,096
Total		$ 15,399,421

SUBSIDIARY	Non Controlling Interest %	Non-Controlling Interest at June 30, 2011
NetSol PK	39.48%	$ 11,531,694
NetSol-Innovation	49.90%	968,790
Total		$ 12,500,484

(A) NetSol Technologies, Limited ("NetSol PK")

For the fiscal years ended June 30, 2012 and 2011, NetSol Technologies Ltd. ("NetSol PK") had net income of $9,438,135 and $8,506,045. The related non-controlling interest was $3,736,175 and $3,469,710, respectively.

(B) NetSol Innovation (Private) Limited ("NetSol Innovation")

For the fiscal years ended June 30, 2012 and 2011, NetSol Innovation (Private) Limited ("NetSol Innovation") had net income of $1,102,318 and $1,012,368. The related non-controlling interest was $550,057 and $505,172, respectively.

During the fiscal year-ended June 2012, NetSol Innovation declared a cash dividend of $690,314, of which the Company's interest was $348,747. The amount attributable to the non-controlling interest was $341,567 and is reflected in the accompanying consolidated financial statements.

(C) VIRTUAL LEASE SERVICES "VLS")

For the period ended June 30, 2012, VLS had a net loss of $150,013. The related 49% non-controlling interest was $73,506.

NOTE 22 –SUBSEQUENT EVENTS

(A) Reverse Split

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

(B) Equity Transactions

The Company issued a total of 3,750 shares of common stock to employees as required according to the terms of their employment agreement valued at $17,250. These shares were included in "Shares to be issued" as of June 30, 2012

The Company issued a total of 2,400 shares of restricted common stock for services rendered by the consultant as required to service agreement.

Employees of the company exercised options to acquire 44,921 shares of common stock valued at $165,400.

The company issued a total of 7,272 shares of common stock to its warrant holder against warrant exercise.