NETSOL TECHNOLOGIES INC
Form 10-K
September 12, 2013

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[x] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-22773

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

NEVADA	95-4627685
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

(818) 222-9195
(Issuer's telephone number including area code)

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT:

COMMON STOCK, $.001 PAR VALUE
THE NASDAQ CAPITAL MARKET

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes [ ] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [ ] No [x]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] No [ ]

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K(§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer [ ]	Accelerated Filer [ ]
Non-accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [x]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [x]

The aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately $39,568,185 based upon the closing price of the stock as reported on NASDAQ Capital Market ($5.99 per share) on December 31, 2012, the last business day of the registrant’s second quarter. As of September 10, 2013, there were 8,985,923 shares of common stock outstanding and no shares of its Preferred Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(None)

ANNUAL REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934

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PART I

NOTE ABOUT FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to the development of the Company's products and services and future operation results, including statements regarding the Company that are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The words "believe," "expect," "anticipate," "intend," variations of such words, and similar expressions, identify forward looking statements, but their absence does not mean that the statement is not forward looking. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Factors that could affect the Company's actual results include the progress and costs of the development of products and services and the timing of the market acceptance. Forward looking statements may appear throughout this report, including without limitation, the following sections: Item 1 “Business,” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risk and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, “NetSol,” “we”, “our,” and similar terms include NetSol Technologies, Inc. and its subsidiaries, unless the context indicates otherwise.

PART 1

ITEM 1 - BUSINESS

GENERAL

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

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

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

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

OUR BUSINESS

Corporate Highlights

A few of NetSol's major successes achieved in 2012-2013 were:

- Signing a new multi-million dollar agreement to implement NFS™ for a major global auto captive finance company;
- Signing an agreement to implement NFS™'s CAP and CMS modules with a leading multi-finance company in Southeast Asia, which currently manages more than one million live contracts generated through its 1,000+ dealerships;
- Signing a global agreement providing for implementation of the CAP and CMS modules with one of Australia's largest non-bank lenders with approximately $5 billion of loan and lease assets under management;
- Signing agreements with several Pakistan based businesses specifically, an agreement to implement the Centralized Driving License Issuance Management System for the province of Punjab and, a contract to develop an IT Risk Assessment and Management framework and Information Security strategy roadmap for Ufone Telecom Company;
- Carrying out the first NFS™ implementation in the Mexican market for a new US captive finance customer in a multi-million dollar agreement;
- Acquiring our first SaaS deal for LeasePack with Motolease;
- Realizing positive changes in VLS including a 35% higher contract number year over year, restructuring senior management and, identifying new system requirements to service growth projections and objectives;
- Making strides in closing new agreements in Europe including a new LeaseSoft license to a private equity backed European asset finance company, license upgrades for existing clients Investec and Aldermore and providing a system solution to support a new line of consumer finance business for a UK merchant bank; and
- Launching Vroozi's "Purchase Manager" to the general public and engaging existing customers on the new solution.

Company Business Model

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

NetSol combines domain expertise with competitive cost blended rates from its world class, state of the art "center of excellence" delivery center in Pakistan and other global centers located in China, Thailand, UK and the USA. Our model also provides localized programs in key markets and project management while minimizing any implementation risk associated with a single service center. Our BestShoring® approach, which we consider a unique and cost effective global development model, is leading the way, providing value added solutions for Global Business Services™ through a win-win partnership, rather than the traditional outsourced vendor framework. NetSol currently has locations in Bangkok, Beijing, Lahore, the London metropolitan area, the San Francisco Bay Area, Sydney and partners with Abeam Consulting (a division of NEC Corp) in Japan and, Atheeb Holdings Group in Riyadh. This provides NetSol customers with the optimum balance of subject matter expertise, in-depth domain experience, and cost effective labor, all merged into a scalable solution. In this way, "BestShoring® delivers BestSolution™".

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

In addition to services, our product offerings are fashioned to provide a Best Product for Best Solution model. Our offerings include our flagship global solution, NetSol Financial Suite (NFS™). NFS™, a robust suite of five software applications, is an end-to-end solution for the lease and finance industry covering the complete leasing and finance cycle starting from quotation origination through end of contract. The five software applications under NFS™ have been designed and developed for a highly flexible setting and are capable of dealing with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments. Each application is a complete system in itself and can be used independently to address specific sub-domains of the leasing/financing cycle. NFS™ is a result of more than ten years of effort resulting in over 60 modules grouped in five comprehensive applications. When used together, they fully automate the entire leasing/financing cycle for any size company including those with multi-billion dollar portfolios.

We are currently developing a new, platform agnostic, mobile technology application for use by our NFS™ customers. The first mobility solution is focused on an IOS/Apple iPad platform with plans to provide Android and MicroSoft platforms to our existing and new customers. Investing to be ahead in this rapidly transforming and innovative technology landscape, the first project has been initiated for Mercedes Benz Finance China focusing on iPads. The initial application permits our customers to use the POS (point of sale) functionality focusing currently on the origination portion of the lending lifecycle by enabling sales users at the dealerships. Our future strategy could include enabling dealership sales users in later releases to cover additional functionality.

NFS™ also includes LeasePak. LeasePak provides the leasing technology industry with the development of Web-enabled and Web-based tools to deliver superior customer service, reduce operating costs, streamline the lease management lifecycle, and support collaboration with origination channel and asset partners. LeasePak can be configured to run on HP-UX, SUN/Solaris or Linux, as well as for Oracle and Sybase users. In terms of scalability, NetSol Technologies North America offers the basic solutions as well as a collection of highly specialized add on modules for systems, portfolios and accrual methods for virtually all sizes and complexities of operations. These solutions provide the equipment and vehicle leasing infrastructure at leading Fortune 500 banks and manufacturers, as well as for some of the industry's leading independent lessors.

NTNA's solutions offering now includes the SaaS business line, which provides an enhanced performance at a lower cost point. At an elastic cloud price, revenue stream predictability and improved return on investment for customers, management believes the Cloud based SaaS customers will experience performance, reliability and speed usually associated with a highly scalable private cloud.

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

NetSol's IP, smartOCI®, part of its Vroozi™ division develops innovative e-commerce solutions for all business sizes and industry verticals which help companies search, source, negotiate, and order goods and services from suppliers electronically optimizing organization's procurement and supply chain operations. Vroozi's business to business search engine, collaborative commerce, and electronic marketplace applications are deployed On Demand and can integrate seamlessly with major ERP vendor systems such as SAP or deployed independently on the Internet.Vroozi™, the eProcurement solution division of NetSol, develops innovative eCommerce solutions for all business sizes and industry verticals helping companies search, source, negotiate, and order goods and services from suppliers electronically and efficiently. It optimizes organization's procurement and supply chain operations. Vroozi's business to business search engine, catalog content manager, and purchase manager applications are deployed in the cloud. It can integrate seamlessly with major ERP vendor systems such as SAP or deployed independently on the Internet.

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

Our Services

Global Business Services ("GBS")

As part of the Company's GBS strategy, each subsidiary adheres to the BestShoring® provides BestSolutions™ model. Each subsidiary expounds on that model by providing IT Consulting services unique to their client base. The development of solutions for clients has resulted in the development of vertical offerings catering to various industries and accordingly, diversifying NetSol's offerings.

NetSol's GBS include: IT consulting & services; business intelligence (BI), independent system review (ISR); information security, outsourcing services and software process improvement consulting; maintenance and support of existing systems; and, project management.

BI solution providers must have both the capability to service BI customers using its own resources but also service the customers' international affiliates. Our strategy is simple; we identify the business needs of our potential customer and involve our industry domain experts directly with business managers at the client side. This results in ownership of the project with the business group rather than the IT group which is involved in the overall initiative only from a support and facilitation standpoint. ISR delivers high quality independent review of software systems running, or under deployment, at client sites. An ever growing awareness of highly publicized IT Security problems, coupled with greater demands by international business partners, has led the movement of companies world-wide towards compliance with internationally recognized Information Security Systems standards. Information Security services is provided by NetSol's Infosec Unit. INFOSEC services include: managed security services; BS-7799/ISO 27001 Consultancy, Information Security Assessment, Penetration Testing and Vulnerability Assessment; Disaster Recovery Planning; and, Secure Network Design. Software Process Improvement Consulting provides quality engineering and related consulting services to technology companies. The services include: consultancy, facilitation services and implementation support for CMMI appraisal, all of these activities are broadly developed under the guidelines of SEI based CMMI processes as well as the information security consulting practices.

Additional services and products are provided to meet local needs within the operating regions.

Our Solutions

NetSol Financial Suite™

The Company develops advanced software systems for the lease and finance industries. Like our services, our product offerings are fashioned to provide a Best Product for Best Solution™ model. Our offerings include flagship NFS™, a robust suite of five software applications, is an end-to-end solution for the lease and finance industry covering the complete leasing and finance cycle starting from quotation origination through end of contract. The five software applications under NFS™ have been designed and developed for a highly flexible setting and are capable of dealing with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments. Each application is a complete system in itself and can be used independently as a modular option, to address specific sub-domains of the leasing/financing cycle. When used together, they fully automate the entire leasing / financing cycle.

The constituent software applications are:

- Point of Sale (POS). POS is a front office processing system for companies in the financial sector. It provides a quotation system which also incorporates a simulation for all kinds of financial products using a built-in loan calculator.

- Credit Application Processing System (CAP). CAP provides companies in the financial sector an environment to handle the incoming credit applications from dealers, agents, brokers and the direct sales force. CAP automatically gathers information from different interfaces like credit rating agencies, evaluation guides, and contract management systems and scores the applications against defined scorecards. This automated workflow permits the credit team members to make their decisions more quickly and accurately. CAP is a database independent online system developed in Microsoft's .Net framework. It can be run from any PC with normal specifications, which is a key benefit for clients.

- Contract Management System (CMS). CMS provides comprehensive business functionality that enables its users to effectively and smoothly manage and maintain a contract with the most comprehensive details throughout its life cycle. It provides interfaces with company banks and accounting systems. CMS effectively maintains details of all business partners that do business with the company including, but not limited to, customers, dealers, debtors, guarantors, insurance companies and banks.

- Wholesale Finance System (WFS). WFS automates and manages the floor plan/bailment activities of dealerships through a finance company. The design of the system is based on the concept of one asset/one loan to facilitate asset tracking and costing. The system covers credit limit, payment of loan, billing and settlement, stock auditing, online dealer and auditor access, and ultimately the pay-off functions.

- Fleet Management System (FMS). FMS is designed to efficiently handle all fleet management needs. FMS is easily integrated with CMS and WFS as well as with any third party contract management system to ensure a single comprehensive system. FMS' key features include: a detailed tracking information on every driver and vehicle; customizable reports; periodic reporting on fleet related aspects; internet based access to information; integration with third party software; and, linkage to GPS for real time tracking.

NFS™ - DAS

NetSol's Dealer & Auditor Management System. DAS is a web-based solution that can be used in conjunction with WFS or any third-party wholesale finance system. The system addresses the needs of Dealer Access, Distributor Access and Auditor Access.

Implementation Process

Implementation is a process which starts after the delivery of the license to the customer. NetSol signs separate agreements for services, if required by the customers, which is independent of the license agreement. The implementation process can span from three to six months. NetSol’s software is a pre-developed solution for the leasing and finance industry. Customers with in-house abilities tend to take care of the implementation with their internal resources. The implementation process includes related software services such as configuration, data migration and any other additional third party interfaces. After the delivery of the license, customers seek enhancements and additions to improve their business processes. NetSol charges these efforts in man-day rate. If required, the services also involve migration of data from client’s older system to the NFS™ database. NFS™ provides mission critical software solutions, and the entire business operations of our clients hinge on successful performance of the system. Hence in the early days after going live, NetSol consultants remain at the client site to assist the company in smooth operations. After this phase, the regular maintenance and support services phase for the implemented software begins. In addition to the daily rate paid by the customer for each consultant, the customer also pays for all the transportation related expenses, boarding of the consultants, and a living allowance. NetSol’s involvement in all of the above steps is priced to bring value to our customers and increase our profitability from our interactions.

Pricing and Revenue Streams

The Company's NFS™ revenue streams occur through the following three main areas: product licensing, implementation related services, and maintenance and support related services. License fees can vary generally between $100,000 for SaaS minimal modules to over $2,000,000 for more robust multiple module implementations. There are various attributes which determine the level of complexity, a few of which are: number of contracts; size of the portfolio; business strategy of the customer; number of business users; and branch network of the customer. 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. However, revenue from sale of licenses with major customization, modification, and development is recognized on a percent of completion basis. Implementation related services, including configuration, data migration and third party interfaces are recognized in accordance with the percentage of completion method. Maintenance and support related services are then provided on a continued basis. Revenue from software services includes fixed price contracts and is recognized in accordance with the percentage of completion method using the output measure of "Unit of Work Completed." The annual maintenance fee, which usually is an agreed upon percentage of overall monetary value of the license, then becomes an ongoing revenue stream realized on yearly basis.

Growth Prospects for NFS™

Growth prospects for NFS™ are linked to the maturing of the product portfolio and its growing customer base across different geographic and product markets. With a next generation solution ready for testing at customer sites, NetSol is eyeing key international markets for growth in sales. Its sales strategy now carefully balances expansion into new geographic markets, including North and South America, and further penetration of our already leading position in Asia Pacific.

Growth in North America is expected to come from the huge potential market for replacement of legacy systems. The next generation version of NFS™ is aimed at providing a highly flexible solution based on latest technology and advanced architecture for these North American customers looking to replace their legacy systems. NetSol Technologies North America ("NTNA") is realizing this potential through implementations in the US, Mexico and a re-energized focus on South America, including Brazil.

Growth in NetSol's traditionally strong base in Asia Pacific is expected through diversification across market segments, to include new customers in related banking and commercial lending areas. At the same time, the existing customer base is tapped for increased service and maintenance revenues by offering enhanced features and new solutions to emerging customer needs.

NetSol has been working for nearly two years to build its name in the Japanese market for our core business. Our alliance with Abeam Consulting, a major consulting group in Japan, has resulted in additional license sales to Japanese companies, realizing our goal of inroads into the Japanese market.

In China, NetSol is the de facto leader in the leasing and finance enterprise solution domain. With this position, NetSol continues to enjoy demand for the current NFS™ solution, as well as the next generation. NetSol will continue strengthening its position within existing multinational auto manufacturers, as well as, local Chinese captive finance and leasing companies.

In Thailand, NetSol established an alternate delivery center in Bangkok. Our operation in Bangkok serves a very robust and growing market for leasing companies and regional banks. Within two years, NetSol Thai has become our second biggest market in APAC with many new fortune 500 clients added.

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We have experienced strong demand in recent quarters for our core competency products in the leasing and finance domain. The majority of the growing interest and orders have been concentrated in the APAC markets including a ramped up demand for our existing product platform. Additionally, NetSol is experiencing an increased demand for NFS™ in the North American market. With this increased demand comes the need to maintain our delivery and implementation capability in our delivery centers. This requires not only aggressive capacity building, improved efficiencies and effectiveness but staying ahead of fast changing technology. With the progress in next generation development, we must stay ahead in mobile device apps, cloud based solutions and any industry specific transformation that could positively affect our growth prospects. The existing R1 solution based clients must be met with the best support and delivery capabilities for continued upward momentum. As we expect traction in revenues through our next generation solution, NetSol will continue offering its current version to businesses looking for a mature and globally tested solution. Future growth will therefore involve increased revenues from both the current version and the next generation of NFS™.

LeasePak

While the new generation of NFS™ is designed to be a truly global solution ready for customization in any market, the Company has historically provided products tailored to the various markets. In North America, NTNA has and continues to develop the LeasePak Productivity modules as an additional companion set of products to operate in conjunction with the LeasePak base system licensed software. LeasePak handles every aspect of the lease or loan lifecycle, including credit application origination, credit adjudication, pricing, documentation, booking, payments, customer service, collections, midterm adjustments, and end-of-term options and asset disposition. Recently, LeasePak has been integrated with Vertex Series O.

LeasePak-SaaS

LeasePak Software-as-a-Service offers a new deployment option whereby customers only require access to the internet and web browser to use the software. Customers pay for the use of the system through a monthly subscription fee. The monthly fee covers, use of the software, maintenance, support, hosting and other various items that reduce the overall cost and processing time of finance companies. The LeasePak-SaaS targets small and mid-sized leasing and finance companies. The product dramatically reduces the customer's IT spend by minimizing the cost of acquiring and maintaining expensive IT infrastructure and related administrative staff. We signed our fist SaaS customer in the current fiscal year.

LeaseSoft

In addition to offering all NetSol products, NetSol Technologies Europe, Ltd. ("NTE") products include: LeaseSoft Portal- introduced to support online access to proposals and for the foundation of web-based origination systems; LeaseSoft Document Manager- introduced to facilitate the automation production and distribution of proposal documentation, including indexation and branding of all outbound and inbound documents; LeaseSoft Auto-Decision Engine- developed to provide automation of credit checking and underwriting for standards based financial products; LeaseSoft EDI Manager- introduced to facilitate process automation between business introducers and funders; and, Evolve- launched to provide an entry level software package for own book brokerages and small to medium size funders.

NTE concluded a license with a private equity backed European asset finance company, provided upgrades for existing clients, Investec and Aldermore and was selected by a UK merchant bank to provide a system solution to support a new line of consumer finance business. Additionally, NTE went live for a leading UK independent leasing company. The implementation included extending support to a variety of funding instruments along with a lease portfolio data transfer. NTE also deployed a dealer point of sale to support prestige and high value motor finance. The deployment will see the system supporting both manufacturer brand and independent dealer finance throughout the UK for a major bank.

Virtual Lease Services

Virtual Lease Services (VLS) was acquired by NTE together with its joint venture partner, Investec Bank. The acquisition was designed to bolster growth in services sectors complementing our core solutions offerings. VLS offers a complete BPO service to the Asset Financing and Leasing industry and through its shareholders is uniquely positioned to offer systems, processes and funding to its clients. VLS continues to win new programs with leading equipment vendors and suppliers and has become the de facto leader of outsourcing services to the growing UK chip and pin vendor market. A cornerstone of VLS's range of services, Portfolio Management, is providing further identified opportunities for start-up businesses, those in run-down mode as well as portfolio acquirers.

VLS had a number of positive changes in the business this year including a restructuring of senior management and identification of new system requirements to service growth projections and objectives. VLS benefitted from an Investec secondi placed within the business to direct and develop new sales channels. VLS contract numbers managed to year end 2013 were 35% higher than the previous year.

Vroozi™

Vroozi™, the eProcurement solution division of NetSol, develops innovative eCommerce solutions for all business sizes and industry verticals helping companies search, source, negotiate, and order goods and services from suppliers electronically and efficiently. It optimizes organization's procurement and supply chain operations. Vroozi's business to business search engine, catalog content manager, and purchase manager applications are deployed in the cloud. It can integrate seamlessly with major ERP vendor systems such as SAP or deployed independently on the Internet.

Vroozi's first product to market is smartOCI®. It is a new search engine technology and buy-side catalog content management solution which enables corporate buyers and shoppers a simple and intuitive user interface to search multiple supplier catalogs simultaneously within the SAP procurement application. The smartOCI® technology was officially released to the market in 2011 at the SAP SAPPHIRE Conference in Orlando, Florida, targeting approximately 15,000+ SAP customers and has strengthened NetSol's presence in the global SAP Services market. Vroozi™ smartOCI® is well-received by the SAP community with marquee Fortune 500 customers.

Since then, Vroozi™ has released a comprehensive purchasing platform combined with the fast search engine power, buyer and supplier side catalog management capability, and full requisition to purchase order business processes. The new Vroozi™ platform allows companies to truly run their purchasing needs with or without any ERP systems in the back end.

Alliances and Joint Ventures

NetSol-Innovation

In November 2004, the Company entered into a joint venture agreement with the Innovation Group (formerly referred to as TiG) called NetSol-Innovation (Pvt) Ltd., ("NetSol-Innovation"), a Pakistani company. NetSol-Innovation provides support services enabling the Innovation Group to scale solution delivery operations in key growth markets. NetSol-Innovation operations are centered in NetSol's IT Village, Lahore, Pakistan. NetSol owns a majority of the venture. The entities share in the profits of the joint venture on the basis of their shareholding. The outsourcing model between the Innovation Group and NetSol involves services pertaining to business analyses, configuration, testing, software quality assurance (SQA), technical communication as well as project management for development software for the Innovation Group. Today, NetSol has developed extensive expertise across the insurance domain and has become a center of excellence.

Initiated with a 10 person outsourcing team in Lahore in February 2005, this arrangement has extended to 136 persons with the additional resources catering to the increased influx of outsourcing of configuration and testing assignments from the Innovation Group. Prominent Innovation Group's customers being serviced from Lahore include JM Family Enterprises USA, Avis Budget Car Rental Group USA, Norwich Union UK, Hertz UK, Aviva Canada, and Erinaceous UK.

Atheeb NetSol Saudi Company

NetSol's growth strategy through joint ventures and partnerships will provide an important thrust to the overall Company growth strategy. Our joint venture with Atheeb Holdings in Saudi Arabia was formed to establish NetSol as an IT partner with a major business group there. The scope of IT business for NetSol is not limited to the Kingdom of

Saudi Arabia, but also offers tremendous new opportunities in the Gulf Cooperation Council nations in the Middle East. Atheeb NetSol Saudi Company Ltd., is a fully operational business unit based in Atheeb Group's headquarters in Riyadh, Saudi Arabia. With a team of nearly 10 employees, this entity is very active in branding NetSol in the region.

Other Alliances

Daimler Financial Services (“DFS”) Asia Pacific has established an “Application Support Centre (ASC)” in Singapore to facilitate the regional companies in NFS related matters. This ASC is powered by highly qualified technical and business personnel. ASC NFS in conjunction with our Asia Pacific Region are supporting DFS companies in seven different countries in Asia and this list can increase as other DFS companies from other countries may also opt for NFS. In July 2008, the Company entered into a Frame Agreement with Daimler Financial Services AG (“DFS”) for the Asia Pacific and Africa regions. This agreement was renewed in October 2010 for an additional 3 year term and renewed again this year. The agreement, which serves as a base line agreement for use of the NFS products by DFS companies and affiliated companies, represents an endorsement of the NFS product line and the capabilities of NetSol to worldwide DFS entities. This continued endorsement has had a tremendous impact on our perspective customers, it has helped our sales and Business Development personnel to market and sell our NFS solution to blue chip customers around the world. This relationship has resulted in new agreements with DFS and has served as a marketing source which has resulted in agreements with companies such as Toyota and BMW.

NTE's strategic relationship with Neptune Software plc has provided the Company with the opportunity to further develop its business in Africa. Neptune has a number of banking clients in Africa whose interest in leasing and asset finance is demonstrably increasing, this being driven by a number of fiscal factors and the desire in the region to mechanise agricultural production in particular.

NetSol is a member of the world’s largest equipment leasing association, the Equipment Leasing and Finance Association of North America, or ELFA. Boasting more than 1,000 members, the ELFA is a strong presence in the $500 billion North American market.

The Company remains willing to explore mergers and acquisition opportunities with a focus on strategic acquisitions that provide immediate, strong, bottom line benefits. Management believes that an ideal target will fulfill one or many of these criteria: geographic synergy/providing a foot print in a market; unique and/or complimentary product lines; provide additional, and cost effective development hubs, or complimentary or target customers in a previously untapped market. While there is no guaranty that an acquisition which appears to be sound will ultimately benefit the Company, management continues to analyze the price, value and market of any potential target. The model of targeting well established, profitable product companies, within NetSol’s domain, management believes, has proven successful with our recent acquisitions. Management believes this model can be replicated over the next three years.

Technical Affiliations

The Company currently has technical affiliations such as: a Microsoft Certified GOLD Partner; a member of the Intel Solution blueprint Program; IBM Business Partner and, an Oracle Certified Partner.

Marketing and Selling

NetSol management continues its optimism that the Company will experience ever increasing opportunities for its product and services offerings in 2014 and beyond. The Company is aggressively growing the marketing and sales organizations in its regions. The objective of the Company's marketing program is to create and sustain preference and loyalty for NetSol as a leading provider of enterprise solutions, e-services consulting, software solutions and business process outsourcing. Marketing is performed at the corporate and business unit levels. The corporate marketing department has overall responsibility for communications, advertising, public relations and the website and, also engineers and oversees central marketing and communications programs for use by each of the business units.

Our dedicated marketing personnel, within the regions, undertake a variety of marketing activities, including sponsoring focused client events to demonstrate our skills and products, sponsoring and participating in targeted conferences and holding private briefings with individual companies. We believe that the industry focus of our sales professionals and our business unit marketing personnel enhances their knowledge and expertise in these industries and will generate additional client engagements.

The Markets

NetSol provides its services primarily to clients in global commercial industries. In the global commercial area, the Company's service offerings are marketed to clients in a wide array of industries including, automotive, chemical, textiles, Internet marketing, software, medical, banks, higher education and telecommunication associations and financial services.

Geographically, NetSol has operations on the West Coast of the United States, Central Asia, Europe, and the Asia Pacific regions. NetSol took the initiative as the first US NASDAQ listed company to dual list on the NASDAQ Dubai exchange in Dubai. Although UAE markets suffered the impact of recession, this move was primarily to introduce NetSol to the potential of the most capitalized Middle Eastern countries. By design, NetSol has increased its brand recognition in one of the most vibrant and dynamically growing regions.

The Asian continent including, Australia and New Zealand, from the perspective of marketing, are targeted by the Asia Pacific Region from its Bangkok, Beijing and Lahore facilities. The marketing for our core offerings in the Americas and Europe is carried out from our San Francisco Bay Area and London Metropolitan area offices.

People and Culture

The Company believes it has developed a strong corporate culture that is critical to its success. Its key values are delivering world-class quality software, client-focused timely delivery, leadership, long-term relationships, creativity, openness and transparency and professional growth. The services provided by NetSol require proficiency in many fields, such as software engineering, project management, business analysis, technical writing, sales and marketing, communication and presentation skills.

With the cost of programmers and developers on the rise, we have edged up in new talent hiring and retention. Due to the growing demand for our core offerings and IT services, retention of technical and management personnel is essential. We have enhanced the compensation structure for our technical teams and senior management to stay ahead of global and regional competition. As a result, we have improved IT employee turnover from almost 20% in 2012 to less than 9% today. This is a significant milestone towards building capacity and driving revenue growth. In addition, we are committed to improving key performance indicators such as improving efficiency, increasing productivity and increasing revenue per employee.

To encourage all employees to build on our core values, we reward teamwork and promote individuals who demonstrate these values. We believe that our growth and success are attributable in large part to the high caliber of our employees and our commitment to maintain the values on which our success has been based. NetSol is an equal opportunity employer with over 25% female employees with the biggest concentration in Lahore and our U.S. headquarters.

NetSol believes it should give back to the community and employees as much as possible. Certain of our subsidiaries are located in regions where basic services are not readily available. Where possible, NetSol acts to not only improve the quality of life of its employees but the standard of living in these regions. Examples of such programs are:

- Humanitarian Relief: We are all aware of the devastation that can be wrought by natural disasters. NetSol has historically supported earthquake and flood relief where the need is the greatest.
- Literacy Program-- launched to educate low paid illiterate employees of the organization. The main objective of this program is to enable these resources to acquire basic reading, writing and arithmetic skills.
- Noble Cause Fund--A noble cause fund has been established to meet medical and education expenses of the children of low paid employees. NetSol employees voluntarily contribute a fixed amount every month to the fund and the Company matches the employee subscriptions with an equivalent contribution amount. A portion of this fund is utilized to support social needs of certain institutions and individuals, outside NetSol.
- Day Care Facility--NetSol's human resources are its key assets and thus the Company takes numerous steps to ensure the provision of basic comforts to its employees. In Pakistan, the provision of outside pre-school child care is a rarity. Keeping in view this requirement, a child day care facility has been created in close proximity to the work premises equipped with the necessary essential staff and equipment.
- Preventative Health Care Program--In addition to the comprehensive out-patient and in-patient medical benefits, preventive health care has also been introduced. This phased program focuses on vaccination of our employees

against Hepatitis – A/B, Tetanus, Typhoid and Flu, etc. This is a regular annual immunization program to keep employees healthy.

- NetSol Corporate University-- NetSol Corporate University ("NCU") was established for developing human resources at NetSol. A need was felt to further develop and retain the talent at hand through strategic learning interventions to respond to growing competition and challenges.

There is significant competition for employees with the skills required to perform the services we offer. The company runs an elaborate training program for different cadre of employees ranging from technical knowledge, business domains as well as communication, management and leadership skills. The Company believes that it has been successful in its efforts to attract and retain the highest level of talent available, in part because of the emphasis on core values, training and professional growth. We intend to continue to recruit, hire and promote employees who share this vision.

As of June 30, 2013, we had 1,110 full-time employees and 9 part-time employees; comprised of 832 IT project and technical personnel; and 278 non-IT personnel. The non-IT personnel include 34 employees in management, 52 employees in sales and marketing, 32 employees in accounting, 19 in customer support, and 141 in general and administration. None of our employees are subject to a collective bargaining agreement.

Competition

Neither a single company, nor a small number of companies, dominate the IT market in the space in which the Company competes. A substantial number of companies offer services that overlap and are competitive with those offered by NetSol. Some of these are large industrial firms, including computer manufacturers and computer consulting firms that have greater financial resources than NetSol and, in some cases, may have greater capacity to perform services similar to those provided by NetSol.

In the NFS™ business space, the barriers to entry are getting higher. The products are becoming more cutting edge while richness in functionality is paramount. Older companies have prolonged the life of their legacy products by creating web-based front ends, while the core of the systems has not been re-engineered. In the case of NFS™, we compete chiefly against leading suppliers of IT solutions to the financial industry, including names such as White Clarke, Fimasys, International Decision Systems (IDS), Data Scan, CHP Consulting, 3i Infotech, Finnone and Nucleus Software.

In the IT based business services areas, we compete with both smaller local firms and many global IT services providers, including names such as Wipro, InfoSys, Satyam Infoway, HCL and TCS (Tata Consulting).

Our competition is based primarily in high cost locations in the US, UK and other parts of Europe as opposed to NetSol with its facility in Bangkok and Lahore. NetSol is now the only company in the leasing and finance solution space that provides regional solutions in North America, Europe and Asia Pacific. In addition, it is the only company in this space that is publicly listed and provides an offshore development infrastructure with CMMI level 5 quality certification.

Many of the competitors of NetSol have longer operating history, larger client bases, and longer relationships with clients, greater brand or name recognition and significantly greater financial, technical, and public relations resources than NetSol. Existing or future competitors may develop or offer services that are comparable or superior to ours at a lower price, which could have a material adverse effect on our business, financial condition and results of operations.

Customers

NetSol customers include world renowned auto manufacturers through their finance arms and large regional banks. major auto finance companies and. In addition, NetSol provides offshore development and testing services to The Innovation Group Plc UK and their blue chip global insurance giants like Allstate, Cendent, etc. NetSol-Innovation contributes to about 7.35% of NetSol's revenues. NetSol is also a strategic business partner for Daimler (which consists of a group of many companies in different countries), which accounts for 21.86% of our revenue. Toyota Motors (which consists of a group of many companies in different countries) accounts for 3.47% of our revenues. Nissan Auto Finance (which consists of a group of many companies in different countries) accounts for

6.23% of our revenues. However, no single client represents more than 10% of the revenue for the fiscal year ended June 30, 2013.

Global Operations and Geographic Data

The Company divides its operations into three regions Asia Pacific, the Americas and Europe. The regions consist of individual subsidiaries which operate as autonomous companies and are strategically managed on a regional basis.

North America

At NetSol Technologies North America, Inc. ("NTNA") the operations are led by Farooq Ghauri. Mr. Ghauri is a technology industry expert with a proven track record in driving the rapid expansion of an industry leading global software organization. Farooq has been working in NTNA since 2008 as an active member of the management team. Mr. Ghauri has worked in NetSol's Pakistan, China, Australia, Europe, Thailand and US offices providing him with the complete understanding of NetSol's global operations in an industry that is rapidly expanding and changing.

Vroozi™, Inc. is headed by Shaz Khan and located in our Calabasas, California office. Mr. Khan joined NetSol in 2008 as part of our acquisition of Ciena Solutions, LLC. He has been developing innovative B2C and B2B e-commerce solutions and technology for start-ups to established software companies for over twelve years with a key focus on search engine and collaboration techniques between buyer and seller. Mr. Khan directs the Company's strategic direction, business development and marketing and is the visionary behind smartOCI®, a Business to Business (B2B) price comparison shopping engine for goods and services. Mr. Khan brings a wealth of experience in managing large ERP supply chain projects for a number of Fortune 1000 organizations. Mr. Khan received his B.A. in Computer Science and a B.A. in Economics from the University of California at Berkeley.

Europe

NTE is headed by Jeffrey Andrews, as Sales & Operations Director and, Tony Langford as head of sales.

VLS is led by Louise Ikonomides. As Managing Director and founding shareholder of VLS, Ms. Ikonomides has been with VLS since its inception in 1999 and with NetSol since the VLS acquisition. Ms. Ikonomides is an accomplished senior executive in asset finance/leasing and installment credit with extensive operational experience. She established VLS's North West satellite office to deliver specialist audit collections and back-office support and played a key role in the company's foundation and growth in London City. She has extensive sector knowledge including Block Discounting, Vendor and SME finance.

Asia Pacific Region

NetSol Technologies, Ltd., a majority owned subsidiary of parent company is located in Lahore, Pakistan and is headed by Salim Ghauri as CEO. Mr. Ghauri is a co-founder of NetSol Technologies and has been with the Company since 1996.

NetSol Beijing is headed by Mr. Naeem Aftab. He has been with NetSol for over 10 years with an MBA from LUMS in Pakistan.

NetSol Thai, is headed by Mr. Asad Ghauri as President of Asia Pacific Region which is run from our Bangkok office. Mr. Ghauri has been with NetSol for almost 10 years and has a B.S. in computer science from George Mason University in Virginia.

The Global Sales Division is headed by Mr. Naeem Ghauri as President of Sales from the NetSol Thai offices located in Bangkok. Mr. Ghauri has been with NetSol since 1999 and has over 25 combined years of experience in business and IT. He is also a member of the board of directors of the parent Company.

The Asia Pacific region including Australia/New Zealand, the Middle East, from the perspective of NFS™ marketing, is targeted by NetSol Technologies from the Asia Pacific region offices located in: Beijing China; Bangkok, Thailand; and Lahore, Pakistan. While Lahore continues to be a mainstay of the Company's delivery and research and development, the Bangkok's expanded delivery and research and development facility has grown into a vibrant delivery center as well as a back-up to the Lahore facility. With the continued growth of the Chinese market, our Beijing office continues to expand as both a sales and support facility. Finally, the Asia Pacific region maintains and will establish offices through the region as is necessary to support its customers and to explore potential markets. These offices currently include Adelaide, Australia and Riyadh, Kingdom of Saudi Arabia.

Our Asia Pacific Region accounted for approximately 74.75% of our revenues in 2013 and our North American and European regions together accounted for approximately 25.25% of our revenues in 2013. Information regarding financial data by geographic areas is set forth in Item 7 and Item 8 of this Annual Report on form 10-K. See note 20 of Notes to Consolidated Financial Statements under Item 8.

Web Presence

The Company is committed to regaining and extending the advantages of its direct model approach by moving even greater volumes of product sales, service and support to the Internet. The Internet provides greater convenience and efficiency to customers and, in turn, to the Company. The company maintains its corporate website at www.netsoltech.com. NetSol's software development and SQA team as well as its clients use its web based customer relationship management solution (HelpDesk) for timely and direct communication, as part of providing ongoing support and maintenance services. More details can be found on http://www.netsolhelp.com.

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

Intellectual Property

The Company relies upon a combination of nondisclosure and other contractual arrangements, as well as common law trade secret, copyright and trademark laws to protect its proprietary rights. The Company enters into confidentiality agreements with its employees, generally requires its consultants and clients to enter into these agreements, and limits access to and distribution of its proprietary information. The NetSol logo and name, as well as the NFS logo and product name have been copyrighted and trademark registered in Pakistan. The NetSol logo and BestShoring® name has been registered with the U.S. Patent and Trademark Office. The Company intends to trademark and copyright its intellectual property as necessary and in the appropriate jurisdictions. The Company successfully registered the smartOCI® logo and name with the United States Patent and Trademark Office. In addition, the Company has filed for a patent on the smartOCI® technology with the United States Patent and Trademark Office and has filed for a trademark application for the Vroozi name with the United States Patent and Trademark Office.

Governmental Approval and Regulation

Current Company operations do not require specific governmental approvals. Like all companies, including those with multinational subsidiaries, we are subject to the laws of the countries in which the Company maintains subsidiaries and conducts operations. Pakistani law allows a tax exemption on income from exports of IT services and products up to 2016. While foreign based companies may invest in Pakistan, repatriation of their investment, in the form of dividends or other methods, requires approval of the State Bank of Pakistan. The present Pakistani government has effectively reformed the policies and regulations effecting foreign investors and multinational companies thus, making Pakistan an attractive and friendly country in which to do business.

Available Information

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

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

ITEM 1A - RISK FACTORS

We have yet to Fully remedy the material weaknesses in our internal controls over financial reporting and accordingly in our disclosure controls and procedures. this failure to remedy these weaknesses may result in a lack of confidence in our financial reporting and negatively affect our stock price and financial viability.

Beginning with our 10-K for the year ending June 30, 2011, our management concluded that our core accounting staff does not have sufficient U.S GAAP experience and training. This lack of sufficient U.S. GAAP expertise in the core accounting staff led to the management's determination that this is a material weakness in our internal controls over financial reporting and, accordingly, in our disclosure controls and procedures. Since 2011, we have actively sought a U.S. CPA candidate to act as interim or permanent Chief Financial Officer ("CFO"). On September 10, 2013, we announced the appointment of Roger Almond, C.P.A., as CFO of the Company. Mr. Almond has the requisite U.S. GAAP and SEC experience to remedy this weakness. While we anticipate that Mr. Almond's oversight will lead to a removal of this weakness, as he did not oversee the preparation of the financial accounts for the year ending June 30, 2013, and pending his oversight of the accounts for consecutive quarterly periods, we will not be able to immediately remove the material weakness disclosure.

ITEM 2 - PROPERTIES

Company Facilities

The Company's corporate headquarter has been located in Calabasas, California since 2000 and currently at 24025 Park Sorrento, Suite 410, Calabasas, CA 91302. It is located in approximately 7,210 rentable square feet, with a monthly rent of $21,165. The lease is a five years and five months lease, expiring in 2017. The parent company and Vroozi are located in this office.

Other leased properties as of the date of this report are as follows:

Location/Approximate	Square Feet	Purpose/Use		Monthly Rental Expense
Alameda, CA	4,298	Computer & General Office	$	8,759
Beijing, China	3,012	General Office	$	10,217
Bangkok, Thailand	3,791	Computer and General Office	$	8,140
Horsham, UK (NetSol Europe)	6,570	Computer and General Office	$	8,876
London, UK (VLS)	2,100	Computer & General Office	$	4,438
NetSol Connect (Karachi Office)(1)	2,310	General Office	$	1,323
NetSol PK (Pindi Office)	2,250	General Office & Guest House	$	529
Sydney, Australia	200	General Office	$	2,000

The Beijing lease is a three year lease that expires in January 2014. The monthly rent is approximately $10,217 (RMB

64,370) per month. The Bangkok lease is a three year lease expiring November 2013 with monthly rent of $8,140 (THB 244,210). The NetSol Europe facilities, located in Horsham, United Kingdom, are leased until July 1, 2021 for an annual rent of £70,000 (approximately $106,512 annually or $8,876 per month). VLS operations are located in London, United Kingdom and are leased until November 5, 2015 for an annual rent of £35,000 (approximately $53,256 annually or $4,438 per month). The Alameda lease, where NTNA offices are located, is a yearly lease with monthly rent of $8,759 expiring November 2013. The NetSol Pindi office lease is a one year lease that expires in June 2014 and currently is rented at the rate of approximately $529 per month. The Sydney lease is a six month full service lease that expires in September 2013 and will thereafter renew on a month to month basis on the same terms with a monthly rent of $2,000.

(1) NetSol Connect Karachi premises were acquired by NetSol Technologies, Ltd. during this fiscal year.

Upon expiration of its leases, the Company does not anticipate any difficulty in obtaining renewals or alternative space.

Lahore Technology Campus

The Technology Campus was inaugurated in Lahore, Pakistan in May 2004. 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 the local depressed real estate market, the company purchased two cottages adjacent to its main building. Total covered area of these cottages is 4,900 sq. feet and its cost was approximately $250,000. The management has moved its accounts, finance, internal audit, company secretariat, costing and budgeting, graphics, technical communication & procurement departments into these cottages. Due to the ever growing requirements of resources, the company started construction of its new building which is adjacent to the current one. This new building will have the capacity to house approximately 1,000 additional resources. Construction of the building is in process and is expected to be completed during the coming fiscal year.

ITEM 3 - LEGAL PROCEEDINGS

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

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITY

(a) MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION - Common stock of NetSol Technologies, Inc. is listed and traded on NASDAQ Capital Market under the ticker symbol "NTWK".

The table shows the high and low intra-day prices of the Company's common stock as reported on the composite tape of the NASDAQ for each quarter during the last two fiscal years. Stock prices have been adjusted to reflect the Company’s 1 for 10 reverse stock split on August 13, 2012.

	2012-2013		2011-2012	
Fiscal Quarter	High	Low	High	Low
1st (ended September 30)	6.95	4.00	17.80	5.60
2nd (ended December 31)	6.75	5.45	6.90	3.50
3rd (ended March 31)	13.74	5.88	9.50	3.60
4th (ended June 30)	14.01	9.14	6.10	3.70

Common stock of NetSol Technologies, Inc. is also listed and traded on the NasdaqDubai Market under the ticker symbol “NTWK” since June 16, 2008.

RECORD HOLDERS - As of September 10, 2013, the number of holders of record of the Company's common stock was 56. As of September 3, 2013, there were 8,985,923 shares of common stock issued and outstanding and no shares of preferred stock issued and outstanding.

DIVIDENDS - The Company has not paid dividends on its Common Stock in the past two fiscal years.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLAN

The table shows information related to our equity compensation plans as of June 30, 2013:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity Compensation Plans approved by Security holders	474,586(1)	$12.78(2)	186,086(3)

Equity Compensation Plans not approved by Security holders	None	None	None
Total	474,586	$12.78	186,086

(1) Consists of 6,000 under the 2002 Incentive and Nonstatutory Stock Option Plan; 21,000 under the 2003 Incentive and Nonstatutory Stock Option Plan; 14,000 under the 2004 Incentive and Nonstatutory Stock Option Plan; 140,462 under the 2005 Incentive and Nonstatutory Stock Option Plan; and 130,000 under the 2011 Incentive and Nonstatutory Stock Option Plan.

(2) The weighted average of the options is $15.65.

(3) Represents 22,587 available for issuance under the 2002 Incentive and Nonstatutory Stock Option Plan; 7000 under the 2003 Incentive and Nonstatutory Stock Option Plan; 96,157 under the 2004 Incentive and Nonstatutory Stock Option Plan; 60,163 under the 2005 Incentive and Nonstatutory Stock Option Plan and 179 under the 2011 Incentive and Nonstatutory Stock Option Plan.

(b) RECENT SALES OF UNREGISTERED SECURITIES

Not Applicable

ITEM 6 – SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

The consolidated statements of income data for the years ended June 30, 2012, and 2013 and the consolidated balance sheet data at June 30, 2012, and 2013 are derived from our audited consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended June 30, 2009, 2010 and 2011 and the consolidated balance sheet data at June 30, 2009, 2010, and 2011, are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

	Year Ended June 30,				
	2009	2010	2011	2012	2013
Consolidated Statements of Income Data:					
Revenues	$26,448,177	$36,779,897	$36,547,574	$39,775,524	$50,797,161
Income (loss) from operations	(6,483,169)	9,727,709	10,164,820	7,264,582	11,667,098
Net income	(8,181,448)	1,394,120	5,728,088	2,446,545	7,863,143
Net income (loss) per share of common stock					
Basic	$(3.04)	$0.40	$1.18	$0.39	$0.96
Diluted	$(2.99)	$0.37	$1.16	$0.39	$0.95

	2009	2010	2011	2012	2013
Consolidated Balance Sheet Data:					
Cash, cash equivalents, and marketable securities	$4,403,762	$4,075,546	$4,172,802	$7,599,607	$7,874,318
Total assets	62,769,026	72,136,180	85,646,380	91,347,213	102,704,115
Total long-term liabilities	8,014,241	5,865,648	720,356	3,012,563	1,412,212
Total stockholders’ equity	37,361,069	45,803,224	64,911,174	74,994,651	89,510,112

ITEM 7- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS

The following discussion is intended to assist in an understanding of NetSol's financial position and results of operations for the year ended June 30, 2013. It should be read together with our consolidated financial statements and related notes included under Item 8 of this Annual Report on Form 10-K.

A few of our major successes achieved in 2012-2013 were:

- Signing a new multi-million dollar agreement to implement NFS for a major global auto captive finance Company;
- Signing an agreement to implement NFS's CAP and CMS modules with a leading multi-finance company in Southeast Asia, which currently manages more than one million live contracts generated through its 1,000+ dealerships;
- Signing a global agreement providing for implementation of the CAP and CMS modules with one of Australia's largest non-bank lenders with approximately $5 billion of loan and lease assets under management;
- Signing agreements with several Pakistan based businesses specifically, an agreement to implement the Centralized Driving License Issuance Management System for the province of Punjab and, a contract to develop an IT Risk Assessment and Management framework and Information Security strategy roadmap for Ufone Telecom Company;
- Carrying out the first NFS implementation in the Mexican market in a multi-million dollar agreement;
- Acquiring our first SaaS deal for LeasePack with Motolease;
- Realizing positive changes in VLS including a 35% higher contract number year over year, restructuring senior management and, identifying new system requirements to service growth projections and objectives;
- Making strides in closing new agreements in Europe including a new LeaseSoft license to a private equity backed European asset finance company, license upgrades for existing clients Investec and Aldermore and providing a system solution to support a new line of consumer finance business for a UK merchant bank; and
- Launching Vroozi's "Purchase Manager" to the general public and engaging existing customers on the new solution.

Our success, in the near term, will depend, in large part, on the Company's ability to: (a) continue to grow revenues and improve profits, (b) adequately capitalize for growth in various markets and verticals; (c) make progress in the North American markets and, (d) continue to streamline sales and marketing efforts in every market we operate. However, management's outlook for the continuing operations, which has been consolidated and has been streamlined, remains optimistic.

Marketing and Business Development Activities

Management has developed, and the board of directors has ratified, an aggressive 3-5 year growth strategy aimed at increasing competitiveness, enhancing global delivery capabilities and increasing financial strength to become a leading global IT institution in the leasing and finance space.

This plan is designed to:

Achieve 15-25% annual revenue growth for the next 5 years
Achieve 55 to 60% gross margins in 2014 and maintain 60% or better for the next three years
Achieve 70-75% organic growth and, 25-30% growth through alliances, partnerships and new markets penetration

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

- Grow delivery and sales capacity in APAC and the USA from approximately 600 NFS™ domain experts to over 1,000 within 18 months.
- Continue to advance infrastructure and systems in Lahore, Bangkok and San Francisco locations.
- Strengthen the NetSol brand in the Americas and penetration in APAC markets such as China, Thailand, Indonesia, Australia and New Zealand.
- Hire and retain the best available talent to develop the next line of managers for our growing demand.
- Develop the sales and delivery capabilities for the Americas markets, in particular the growth in the US auto and banking sectors. A shift in revenue contribution from the Americas markets in next few users would improve both gross and net operating margins due to the volume and size of US contracts; further position NetSol to deliver and support the new growth and technology dimensions in IT services, maintenance, mobile apps and cloud based solutions.
- Maintain the quality of our delivery illustrated by our CMM Level 5 certification.

Management continues to be focused on scaling up its delivery capability and has achieved key milestones in that respect. Key projects are being delivered on time and on budget, quality initiatives are succeeding, especially in maturing internal processes. CMMI level companies are reassessed every three years by independent consultants under the standards of the Carnegie Mellon University to maintain its CMMI Level 5 quality certification. As required, NetSol was reassessed in 2010 and was successfully recertified as CMMI Level 5. While we believe this quality certification will be renewed, our current reassessment due for August 2013 is currently pending. We believe that the CMMI standards are a key reason in NetSol's demand surge worldwide. We remain convinced that this trend will continue for all NetSol offerings promoting further beneficial alliances and increasing the number and quality of our global customers.

MATERIAL TRENDS AFFECTING NETSOL

Management has identified the following material trends affecting NetSol.

Positive trends:

- Improving sales trends in US auto and banking sectors.
- Slowly improving economic environment in the UK and major European economies.
- The declining IT outsourcing from India gives strength to NetSol APAC delivery centers.
- New emerging markets and IT destinations in Thailand, Malaysia, Indonesia and Australia.
- Growing interest of global companies in NetSol's next generation solution.
- Growing interest in Japan for IT services and NFS™ applications within banking, equipment finance and general leasing industries.
- Investment by the Kingdom of Saudi Arabia in healthcare, education, defense, cyberspace securities, IT, infrastructure and many other new sectors. This makes it one of the most promising markets for the Atheeb NetSol joint venture.
- A peaceful democratic transition of government in Pakistan provides stability to fight off extremism and shift focus to the economy.

Negative trends:

- Geopolitical unrest in the Middle East.
- Continued strains in US-Pakistan relations.
- The delays of CBRC licenses at least for another year in China.
- Tightened liquidity and credit restrictions in consumer spending has either delayed or reduced spending on business solutions and systems, squeezing IT budgets and extending decision making cycles.
- Restricted liquidity and financial burden due to tighter internal processes and limited budgets might cause delays in the receivables from some clients.
- The threats of conflict between the US and other nations and Syria could potentially create volatility in oil prices causing readjustments of corporate budgets and consumer spending slowing global auto sales.
- Continued conflicts in Afghanistan could increase the migration of both refugees and extremists to Pakistan, thus creating domestic and regional challenges.

CRITICAL ACCOUNTING POLICIES

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

REVENUE RECOGNTION

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

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

MULTIPLE ELEMENT ARRANGEMENTS

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

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

INTANGIBLE ASSETS

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

SOFTWARE DEVELOPMENT COSTS

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

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

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.

The company does impairment testing of the goodwill on an annual basis at the balance sheet date i.e., June 30th. In addition to our annual internal impairment testing, the Company retains the services of an independent valuation specialist to validate our findings.

The source of the Company’s goodwill relates to the acquisition of three companies namely NetSol PK, CQ Systems, UK, VLS, UK and McCue Systems, USA. NetSol PK operates in the Asia Pacific region; CQ Systems (currently NetSol Technologies Europe Limited) and VLS both operate in Europe; and McCue Systems (currently NetSol Technologies North America, Inc.) operates in the North American region. All these geographies are considered as different reporting units (segments). Goodwill arising from the acquisition of these companies has been allocated to their respective geographical segments to which they relate. While identifying reporting units/ segments, the Company takes into consideration the reports reviewed by the CEO (chief operating decision maker). As our financial reports are analyzed on this regional basis, we have defined this as segment reporting for purposes of goodwill impairment testing. Reporting unit detail of goodwill as of June 30, 2013 and 2012 is given below:

	As of June 30, 2013	As of June 30, 2012
Asia Pacific	$ 1,303,372	$ 1,303,372
Europe	3,685,858	3,685,858
USA	4,664,100	4,664,100
Total	$ 9,653,330	$ 9,653,330

There was no impairment of goodwill for the years ended June 30, 2013 and 2012. A number of factors are taken into consideration while calculating the fair value of the reporting units. These factors include the projected after tax earnings of the reporting unit, industry price earnings ratio and a reasonable discount rate to arrive at the actual fair value of the reporting unit.

As the fair value of all reporting units substantially exceeded the carrying values, no impairment was identified in the consolidated financial statements. The following table sets forth the percentage by which the fair value exceeds the carrying value for all reporting units as on June 30, 2013:

Reporting Units	Percentage by which fair value exceeds carrying value
Asia Pacific	14,274.72%
Europe	1,236.62%
North America	491.53%

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RESULTS OF OPERATIONS

THE YEAR ENDED JUNE 30, 2013 COMPARED TO THE YEAR ENDED JUNE 30, 2012

The following table sets forth the items in our consolidated statement of operations for the years ended June 30, 2013 and 2012 as a percentage of revenues.

	For the Year Ended June 30,			
	2013	%	2012	%
Net Revenues:				
License fees	$ 17,756,447	34.96 %	$ 13,369,701	33.61 %
Maintenance fees	9,550,471	18.80 %	7,866,930	19.78 %
Services	23,490,243	46.24 %	18,538,893	46.61 %
Total net revenues	50,797,161	100.00 %	39,775,524	100.00 %
Cost of revenues:				
Salaries and consultants	13,051,360	25.69 %	10,236,109	25.73 %
Travel	1,710,561	3.37 %	1,273,259	3.20 %
Repairs and maintenance	485,070	0.95 %	373,359	0.94 %
Insurance	179,959	0.35 %	145,351	0.37 %
Depreciation and amortization	4,147,347	8.16 %	3,528,229	8.87 %
Other	3,379,636	6.65 %	2,721,716	6.84 %
Total cost of revenues	22,953,933	45.19 %	18,278,023	45.95 %
Gross profit	27,843,228	54.81 %	21,497,501	54.05 %
Operating expenses:				
Selling and marketing	3,556,997	7.00 %	3,130,379	7.87 %
Depreciation and amortization	1,555,402	3.06 %	1,113,758	2.80 %
Bad debt expense	415,482	0.82 %	124,291	0.31 %
Salaries and wages	5,078,278	10.00 %	4,191,593	10.54 %
Professional services, including non-cash compensation	907,844	1.79 %	993,058	2.50 %
General and adminstrative	4,662,127	9.18 %	4,679,840	11.77 %
Total operating expenses	16,176,130	31.84 %	14,232,919	35.78 %
Income from operations	11,667,098	22.97 %	7,264,582	18.26 %
Other income and (expenses)				
Gain (loss) on sale of assets	3,682	0.01 %	(18,979)	-0.05 %
Interest expense	(664,025)	-1.31 %	(823,684)	-2.07 %
Interest income	185,343	0.36 %	82,039	0.21 %
Gain on foreign currency exchange transactions	1,367,448	2.69 %	404,708	1.02 %
Share of net loss from equity investment	482,664	0.95 %	(300,000)	-0.75 %
Beneficial conversion feature	(635,882)	-1.25 %	(179,576)	-0.45 %
Other (expense)	147,153	0.29 %	275,565	0.69 %
Total other income (expenses)	886,383	1.74 %	(559,927)	-1.41 %
Net income before income taxes	12,553,481	24.71 %	6,704,655	16.86 %
Income taxes	(465,426)	-0.92 %	(55,384)	-0.14 %
Net income after tax	12,088,055	23.80 %	6,649,271	16.72 %
Non-controlling interest	(4,224,912)	-8.32 %	(4,202,727)	-10.57 %
Net income attibutable to NetSol	7,863,143	15.48 %	2,446,544	6.15 %

The following table represents revenues by each subsidiary and corresponding geographical region:

	2013			2012		
	Revenue	%		Revenue	%	
Corporate headquarters	$-	0.00	%	$-	0.00	%
North America:						
NTNA	5,796,484	11.41	%	3,257,059	8.19	%
Vroozi	947,698	1.87	%	1,295,114	3.26	%
	6,744,182	13.28	%	4,552,173	11.44	%
Europe:						
NTE	6,183,202	12.17	%	4,395,364	11.05	%
VLS	1,655,440	3.26	%	1,276,838	3.21	%
HAFL	-	0.00	%	4,190	0.01	%
	7,838,642	15.43	%	5,676,392	14.27	%
Asia-Pacific:						
NetSol PK	22,605,831	44.50	%	22,679,948	57.02	%
Netsol-Innovation	3,734,583	7.35	%	3,444,916	8.66	%
Connect	760,795	1.50	%	636,849	1.60	%
Abraxas	1,359,322	2.68	%	390,819	0.98	%
NTPK Thailand	7,433,648	14.63	%	1,084,285	2.73	%
NetSol Beijing	320,158	0.63	%	1,310,142	3.29	%
	36,214,337	71.29	%	29,546,959	74.28	%
Total	$50,797,161	100.00	%	$39,775,524	100.00	%

The Company has maintained its estimated revenue projections despite severe global economic challenges.

Net revenues for the year ended June 30, 2013 were $50,797,161 as compared to $39,775,524 for the year ended June 30, 2012. In terms of percentage, the revenues increased by 27.71% compared with last year. This increase included a 21.4% growth in maintenance fee revenue, from $7,866,930 to $9,550,471, due to re-negotiation of some maintenance agreements in APAC and Europe. Services income which also include consulting and implementation services, increased by 26.71% from $18,538,893 to $23,490,243. The Company's license revenue also increased by 32.81%, from $13,369,701 in 2012, to $17,756,447 in 2013. This increase in license revenue is mainly due to the increasing demand of our flagship product NFSTM and the confidence of the customers in our delivery capability due to a zero percent failure rate.

The Company is well-positioned for revenue growth and has invested heavily in the development of its next generation product, which is expected to be completed during the calendar year 2014. Globally, our target customers are still using old systems for maintaining their lease and finance portfolios and are now planning to replace their legacy systems. NetSol, being a trusted name in this field, is in a good position to tap new business from these companies. The completion of this next generation software will provide the Company the capability to enter into a much larger market. We note that this product-conversion may negatively impact our license fee revenue until which point the new product gains traction in the marketplace.

The gross profit was $27,843,228 for year ended June 30, 2013, as compared with $21,497,501 for the same period of the previous year. This is an increase of 29.52%. The gross profit percentage was 54.81% for the current fiscal year slightly up from 54.05% in the prior year. The cost of sales was $22,953,933 in the current year compared to $18,278,023 in the prior year. The increase in cost of sales is mainly due to increase in salaries of the technical staff, impact of hiring of further resources to increase the delivery capacity, increased travel to implement the software at client sides, increase in depreciation and amortization expense and some inflationary factors affecting global economy.

Operating expenses were $16,176,130 for the year ended June 30, 2013, as compared to, $14,232,919 for the year ended June 30, 2012, an increase of 13.65% from the prior year. The increase is mainly attributable to increase in sales and marketing expense, depreciation and amortization and salaries and wages. Depreciation and amortization expense amounted to $1,555,402 and $1,113,758 for the year ended June 30, 2013 and 2012, respectively. Combined salaries and wage costs were $5,078,278 and $4,191,593 for the comparable periods, respectively, or an increase of $886,685 from the corresponding period last year. One of the main reasons for this increase is the severance allowance paid to some staff in Europe and the additional cost recorded on grant of options to employees. General and administrative expenses were $4,662,127 and $4,679,840 for the years ended June 30, 2013 and 2012, respectively, a decrease of $17,713 or 0.38%. As a percentage of sales, these expenses were 9.18% in the current year compared to 11.77% in the prior year.

Selling and marketing expenses increased to $3,556,997 for the year ended June 30, 2013 as compared to $3,130,379 for the year ended June 30, 2012. As a percentage of sales, these expenses were 7.00% in the current year compared to 7.86% in the prior year. The Company provided for certain doubtful debts of $415,482 and $124,291, during the years ended June 30, 2013 and 2012, respectively.

Income from operations in fiscal year 2012 was $11,667,098 as compared to $7,264,582 in fiscal year 2012. As a percentage of sales, net income from operations was 22.97% in the current year as compared to 18.26% in the prior period.

Net income in fiscal year 2013 was $7,863,143 as compared to $2,446,544 in fiscal year 2012. The current fiscal year amount includes a net reduction for the minority interest in earnings of $4,224,912 compared to a reduction of $4,202,727 in the prior year for the 49.9% minority interest in NetSol Innovation, the 34.81% minority interest in NetSol PK, the 49% minority interest in VLS and the 9.09% minority interest in Vroozi™. The net earnings per share, basic and diluted, were $0.96 and $0.95 in 2013 respectively as compared to $0.39 in 2012.

The net EBITDA income was $14,510,000 as compared to $7,885,560 after amortization and depreciation charges of $5,702,749 and $4,641,987, income taxes of $465,426 and $55,384, interest expense of $664,025 and $823,684 and interest income of $185,343 and $82,039 respectively. The EBITDA income per share, basic & diluted was $1.77 and $1.75 as compared to $1.27 and $1.26 in the year ago period. Although the net EBITDA income is a non-GAAP measure of income, we are providing it because we believe it to be an important supplemental measure of our performance that is commonly used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry. It should not be considered as an alternative to net income, operating income or any other financial measures calculated and presented, nor as an alternative to cash flow from operating activities as a measure of our liquidity. It may not be indicative of the Company's historical operating results nor is it intended to be predictive of potential future results.

Liquidity and Capital Resources

We note that our cash position was $7,874,318 at June 30, 2013 compared to $7,599,607 at June 30, 2012. Further, we note that our current assets, as of June 30, 2013, totaled $42,074,279 and were 40.97% of total assets, an increase of 15.98% from $36,278,106, or 39.71% of total assets as of June 30, 2012. As of June 30, 2013, our working capital (current assets less current liabilities) totaled $30,104,263 compared to $22,673,556 as of June 30, 2012, an increase of $7,530,607. As of June 30, 2013, we had $14,684,212 in accounts receivable and $15,367,198 in revenues in excess of billings. Net cash provided by operating activities amounted to $13,845,819 for the year ended June 30, 2013, as compared to $8,112,715 for the year ended June 30, 2012. The increase is mainly due to an increase in net profits. The average collection cycle for accounts receivables ranges between three to six months from the date of invoicing. Payments are usually received within the due dates. The average days sales outstanding for the year ended June 30, 2013, were 106 days as compared with 127 days in fiscal year 2012.

We note that net cash used in investing activities amounted to $14,472,252 for the year ended June 30, 2013, as compared to $11,407,346 for the year ended June 30, 2012. The increase is primarily as a result of purchase/ replacement of more property and equipment during the year. The company also acquired some non-controlling interest in in its majority owned subsidiaries against the payment of $799,349. Please note that we had purchases of property and equipment of $8,958,876 compared to $4,912,322 for the comparable period last fiscal year.

We note that net cash provided by financing activities amounted to $1,690,794 and $9,091,751 for years ended June 30, 2013, and 2012, respectively. The current fiscal year included the cash inflow of $Nil from the sale of common stock and $2,648,848 from the exercising of stock options and warrants, compared to $5,743,300 and $728,500 in the prior year, respectively.

In the current fiscal year, we had $1,795,663 in proceeds from bank loans, and net capital leases payments of $630,714 as compared to $4,190,395 in proceeds from bank loans, and net capital leases payments of $8,089,139 in the comparable period last year. We operate in a range of geographical regions of the world through our various subsidiaries. These subsidiaries have financial arrangements from various financial institutions to meet both their short and long term funding requirements. These loans will become due at different maturity dates the detail of which is given in Note No. 12 of the annexed financial statements. We and all of our subsidiaries are in compliance with our financial covenant arrangements. Our subsidiary, NetSol PK, has a term finance facility from Askari Bank to finance the construction of a new building. The total amount of the facility is Rs. 112,500,000 or approximately $1,114,965 which is secured by way of first charge of Rs. 580 million of land, building, and equipment. We have used only Rs. 87.5 million (approximately $867,000) of this facility as on June 30, 2013 and the balance of Rs. 25 million is available depending upon our financial requirements.

We plan on pursuing various, feasible means of raising new funding to: expand infrastructure, enhance product offerings and strengthen marketing and sales activities in strategic markets. A strong growth in earnings and the signing of larger contracts with Fortune 500 customers largely depends on the financial strength of NetSol. Generally, the bigger name clients and new prospects diligently analyze and take into consideration a stronger balance sheet before awarding big projects to vendors. Therefore, NetSol would continue its effort to further enhance its financial resources in order to continue to attract large name customers and big value contracts.

As a growing and dynamic company, we will continue our organic growth strategy in selective markets. In light of the strong growth outlook for the next few years, we will need to invest in hiring, training and development and build capacity in our main facilities. While this is a key element affecting gross margins, it is essential to have sufficient personnel ready to deliver. While we have been most prudent in our capital investment, there will be on-going capital expenditure needs based on our short term and long term business plans. Our requirements for capital expenses vary from time to time, for the next 12 months, we anticipate having the need for working capital of $6.0 to $7.0 million for overall expansion plans that would involve continued R&D, new product development, business development activities and infrastructure enhancements.

Management intends to further improve the accounts receivable collections process from our customers. In addition, we expect that executive and employee stock options exercises as a substantial amount of these options are in the money. We will explore injections of new capital from strategic investors, as the most feasible and viable source of new capital. Some of the joint ventures partners could be amongst the strategic investors to strengthen our balance sheet. Management is very aware of the need to continue to reduce both short term and long term liabilities while continuously improving cash flow and net cash position. Management remains very committed and focused to strengthening overall assets and will employ all of the above mentioned tools and such others as may become available to achieve these goals.

Financial Covenants

Our UK based subsidiary, NetSol Technologies Europe Limited (NTE) has an approved overdraft facility of £200,000 ($312,340) which requires that the aggregate amount of invoiced trade debtors (net of provisions for bad and doubtful debts and excluding intra-group debtors) of NTE, not exceeding 90 days old, will not be less than an amount equal to 200% of the facility. NTE had been granted another credit facility of £1,000,000 ($1,521,600) for the acquisition VLS. This facility requires that NTE’s adjusted tangible net worth would not be less than £600,000. For this purpose, adjusted tangible net worth means shareholders’ funds less intangible assets plus non-redeemable preference shares. In addition, NTE’s cash debt service coverage would not fall below 150% of the aggregate debt service cost. The Pakistani subsidiary, NetSol Technologies Limited (NTPK) has an approved facility for both export refinance and term finance from Askari Bank Limited amounting to Rupees 312.5 million ($3,097,126) which requires NTPK to maintain a long term debt equity ratio of 60:40 and the current ratio of 1:1.

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

Dividends and Redemption

It has been our policy to invest earnings in growth rather than distribute earnings as common stock dividends. This policy, under which common stock dividends have not been paid since our inception is expected to continue, but is subject to regular review by the Board of Directors.

Contractual Obligations

Our significant contractual obligations are as follows:

Contractual Obligation	Payment due by period Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Debt Obligations					
Term Finance Facility	$867,195	$495,540	$371,655	$ -	$ -
HSBC Loan	1,047,014	336,339	672,678	37,997	-
D&O Insurance	88,292	88,292	-	-	-
Habib Bank Line of Credit	1,785,237	1,785,237	-	-	-
Bank Overdraft Facility	312,139	312,139	-	-	-
Bank Loan	1,982,161	1,982,161	-	-	-
Capital Lease Obligations					-
Subsidiary Capital Leases	638,800	308,918	318,197	11,685	-
					-
Operating Lease Obligations					-
Non-cancellable operating lease	2,401,272	645,087	815,078	621,571	319,536
					-
Total	$9,122,110	$5,953,713	$2,177,608	$671,253	$ 319,536

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in currency exchange rates and interest rates.

Foreign Currency Exchange Risk

Economic Exposure

We transact business in various foreign currencies and have significant international revenues, as well as costs denominated in foreign currencies. This exposes us to the risk of fluctuations in foreign currency exchange rates. Since majority of the operations of the company are based in the Asia Pacific region where Pak Rupee is continuously losing its value against the US Dollar and we don’t have any imports, therefore, we believe it is counter-productive to hedge this exposure. Devaluation of Pak rupee results in foreign exchange gain to the company.

Transaction Exposure

Our exposure to foreign currency transaction gains and losses is the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the functional currency of the subsidiary, primarily the Euro, Yuan, Baht and Pak Rupee. Our foreign subsidiaries conduct their businesses in local currency. Since majority of the operations of the company are based in the Asia Pacific region where Pak Rupee is continuously losing its value against the US Dollar and we don’t have any imports, therefore, we believe it is counter-productive to hedge this exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements that constitute Item 8 are included at the end of this report on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NetSol's financial statements for the fiscal years ended June 30, 2013 and June 30, 2012, did not contain an adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

Also except as noted in Item 9A below, In connection with the audit of NetSol's financial statements for the fiscal years ended June 30, 2013 and June 30, 2012, there were no disagreements, disputes, or differences of opinion with Kabani & Company on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures, which, if not resolved to the satisfaction of Kabani & Company would have caused Kabani & Company to make reference to the matter in its report.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, the Chief Financial Officer and Chief Executive Officer concluded that our disclosure controls and procedures were not effective.

Management's Report on Internal Control over Financial Reporting

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

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

Under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, we have performed an assessment of the effectiveness of our internal controls over financial reporting as of June 30, 2013. This assessment was based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of our assessment, the Company has determined that as of June 30, 2013, there was a material weakness in the Company's internal control over financial reporting. Specifically, while in the performance of this assessment, management identified that its core accounting staff does not have necessary technical accounting training relating to accounting for complex U.S. GAAP matters. Based on this evaluation, management concluded that our internal control over financial reporting was not effective as of June 30, 2013. Notwithstanding the existence of such material weakness in our internal controls over financial reporting, our management, including our Chief Executive Officer, believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

On September 9, 2013, the Company appointed Roger Almond, C.P.A. to act as Chief Financial Officer of NetSol. Management believes that Mr. Almond's appointment as CFO results in the requisite technical accounting knowledge and training relating to accounting for complex U.S. GAAP matters. Management believes that Mr. Almond's appointment will result in the removal of the material weakness in subsequent quarters.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the fourth quarter of fiscal year 2013, that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)).

ITEM 9B. OTHER INFORMATION

Departure and Arrival of Chief Financial Officer:

On September 9, 2013, Mr. Roger K. Almond was appointed to the position of Chief Financial Officer of NetSol Technologies, Inc. Mr. Almond replaces Mr. Boo-Ali Siddiqui who will assume the role of Chief Accounting Officer, while continuing his roles of Chief Financial Officer and Secretary of NetSol PK. There was no disagreement with Mr. Boo-Ali Siddiqui related to his departure as CFO of NetSol Technologies, Inc. Mr. Almond is being retained to provide his expertise and financial and accounting acumen to the finance department. His roles will include the preparation of all quarterly and annual financial statements, including ensuring that our financial statements are presented in compliance with U.S. GAAP. Additionally, Mr. Almond will assist our CEO with communications and interaction with the investor and financial communities. While acting as a consultant, Mr. Almond shall be paid on an hourly basis at the rate of $100 per hour with a minimum commitment of 20 hours per week. For further information about Mr. Almond, please see his biographical information on page 40 of this report. Mr. Almond's Consulting Agreement dated effective September 9, 2013, is attached to this report as an exhibit.

Charters and Code of Conduct:

The Committees of the Board of Directors have reviewed the various charters and codes of conduct and have agreed that they be restated on September 10, 2013. These restated Charters and Codes of Conduct can be found on www.netsoltech.com/IR/corporate-governance. The updated charters and Code of Conduct are attached to this report as an exhibit.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Company's directors and executive officers and persons owning more than 10% of the outstanding Common Stock, file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Executive officers, directors and beneficial owners of more than 10% of the Company's Common Stock are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on copies of such forms furnished as provided above, or written representations that no such forms were required, the Company believes that during the fiscal year ended June 30, 2013, all Section 16(a) filing requirements applicable to its executive officers, directors and beneficial owners of more than 10% of its Common Stock were complied with.

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

Board of Directors

At the 2013 Annual Shareholders Meeting, a seven member board stood for election. The members were elected and, according to the bylaws of the company shall retain their position as directors until the next meeting. The board of directors is made up of: Mr. Najeeb U. Ghauri, Mr. Eugen Beckert, Mr. Naeem U. Ghauri, Mr. Shahid Burki, Mr. Salim Ghauri, Mr. Mark Caton and, Mr. Jeffrey Bilbrey.

Committees

The Audit committee is made up of Mr. Burki as Chairman, Mr. Caton, Mr. Beckert and Mr. Bilbrey as members. The Compensation committee consists of Mr. Caton as its Chairman and Mr. Beckert, Mr. Burki and, Mr. Bilbrey as its members. The Nominating and Corporate Governance Committee consists of Mr. Beckert as chairman and Mr. Burki, Mr. Caton and, Mr. Bilbrey.

The table below provides the membership for each of the committees during Fiscal Year 2013.

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Najeeb Ghauri			
Naeem Ghauri			
Salim Ghauri*			
Shahid J. Burki (I)	X(C)	X	X
Eugen Beckert (I)	X	X	X(C)
Mark Caton (I)	X	X (C)	X
Jeffrey Bilbrey (I)*	X	X	X

(I) Denotes an independent director.

(C) Denotes the Chairperson of the committee.

* The Company determined to adjust the number of directors from 5 to 7 members. Mr. Bilbrey was appointed to fill a vacancy in March 2013 and Mr. Salim Ghauri stood for election to the board in July 2013. The board continues to consist of a majority of independent members.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the names and ages of the current directors and executive officers of the Company, the principal offices and positions with the Company held by each person and the date such person became a director or executive officer of the Company. The Board of Directors elects the executive officers of the Company annually. Each year the stockholders elect the Board of Directors. The executive officers serve terms of one year or until their death, resignation or removal by the Board of Directors. In addition, there was no arrangement or understanding between any executive officer and any other person pursuant to which any person was selected as an executive officer.

The directors and executive officers of the Company are as follows:

Name	Year First Elected As an Officer or Director	Age	Position Held with the Registrant	Family Relationship
Najeeb Ghauri	1997	59	Chief Executive Officer, Chairman and Director	Brother to Naeem & Salim Ghauri
Boo-Ali Siddiqui	2009	38	Chief Financial Officer*	None
Roger Almond	2013	48	Chief Financial Officer*	None
Patti L. W. McGlasson	2004	48	Sr. V.P., Legal and Corporate Affairs; Secretary, General Counsel	None
Naeem Ghauri	1999	56	Director	Brother to Najeeb & Salim Ghauri
Shahid Javed Burki	2000	74	Director	None
Salim Ghauri	1999**	58	Director	Brother to Najeeb & Naeem Ghauri
Eugen Beckert	2001	66	Director	None
Mark Caton	2002	64	Director	None
Jeffrey Bilbrey	2013	42	Director	None

*Mr. Almond was appointed Chief Financial Officer of the Company on September 9, 2013. At that point, Mr. Boo-Ali Siddiqui stepped down as Company CFO but undertakes the position of Chief Accounting Officer and retains the positions of CFO and Company Secretary of NetSol Technologies, Ltd.
**Salim Ghauri, at his request. did not stand for re-election to the Board of Directors during fiscal year 2012-2013; he accepted his nomination to the board and was elected back on the board on May 2013 to serve for a one year term.

Business Experience of Officers and Directors:

NAJEEB U. GHAURI is the Chief Executive Officer and Chairman of the Board of NetSol Technologies, Inc. Najeeb, has been a Director of the Company since 1997, Chairman since 2003 and Chief Executive Officer since October 2006; and is the founder of NetSol Technologies, Inc.

Najeeb oversees all seven subsidiaries of NetSol as well as the parent company in seven different locations worldwide. He has successfully worked with management to make NetSol a multi-national company listed on three different stock exchanges worldwide (NASDAQ, Karachi Stock Exchange and NASDAQ Dubai). As CEO, Mr. Najeeb Ghauri is responsible for managing the day-to-day operations of the Company, as well as analyzing and developing plans to drive the Company's overall growth and nurture new business. With more than 1,100 employees worldwide, under his leadership, NetSol has matured into a well-recognized name in the industry.

Prior to joining NetSol, Najeeb was part of the marketing team of Atlantic Richfield Company (ARCO) (now acquired by BP), a Fortune 500 company, from 1987-1997. Prior to ARCO, he spent nearly five years with Unilever as brand and sales manager. Najeeb received his Bachelor of Science degree in Management/Economics from Eastern Illinois University in 1979, and his M.B.A. in Marketing Management from Claremont Graduate School in California in 1981.

Najeeb was elected Vice Chairman of US Pakistan Business Council in 2006, a Washington D.C. based council of US Chamber of Commerce. Najeeb Ghauri served as Vice Chairman of US Pakistan Business Council for two terms in 2006 and 2012.He is also very active in several philanthropic activities in emerging markets and is a founding director of Pakistan Human Development Fund, a non-profit organization, a partnership with UNDP to promote literacy, health services and poverty alleviation in Pakistan.

Mr. Najeeb Ghauri holds a director seat in Atheeb NetSol Ltd., located in Saudi Arabia; NetSol Technologies, Ltd., Lahore, Pakistan; and DNA Health Corporation, a start-up health care business located in Maryland.

ROGER ALMOND was appointed Chief Financial Officer on September 9, 2013.

Since 2007, Roger Almond held the position of Senior Manager at Pickard & Green Certified Public Accountants where he and his team was responsible for assisting national and international companies in their financial reporting requirements to the SEC. Roger Almond's duties also included overseeing multiple entity consolidations, converting financial data to US GAAP, preparing financials statements, footnotes and MD&A. Prior to his current position, Roger Almond held the position of Assurance Manager at Grant Thornton LLP, in Los Angeles, California from 2003-2006; and from November 1999 to August 2003, he was the Chief Financial Officer of Keysor Century Corporation located in Saugus, California.

Roger Almond received his BS in Accounting from Brigham Young University in 1991 and he is a Certified Public Accountant licensed in California. He has also completed executive management courses at UCLA in 2001.

BOO-ALI SIDDIQUI served as NetSol's Chief Financial Officer from April 2009 to September 2013.

From September 2013, Mr. Siddiqui serves as Chief Accounting Officer of the Company and will continue to serve as Chief Financial Officer and Company Secretary of NetSol Technologies Ltd. Located in Lahore, managing the finances of all companies in the Asia group, a position he has held since 2005.

Prior to joining NetSol, he served as Deputy Registrar of Companies for the Securities & Exchange Commission of Pakistan (SECP) and as Senior Manager, Audit and Tax, for Ehtisham & Co., Chartered Accountants.

Mr. Siddiqui holds a Bachelor of Commerce from Hailey College of Commerce, Lahore, University of The Punjab, Pakistan, is a Fellow Member of the Institute of Chartered Accountants of Pakistan (FCA), the Institute of Chartered Secretaries & Managers (FICS) and the Pakistan Institute of Public Finance Accountants (FPFA). He is also member of the Institute for Internal Controls USA and the Institute of Forensic Accountants of Pakistan. He completed his four years articleship from Ford Rhodes Sidat Hyder & Company a renowned accounting firm in Pakistan representing Ernest Young International.

PATTI L. W. MCGLASSON joined NetSol as General Counsel in January 2004 and was elected to the position of Secretary in March 2004. She was appointed Senior Vice President, Corporate and Legal Affairs in 2013.

In the role of General Counsel, McGlasson is responsible for leading NetSol's legal department company-wide. McGlasson is also responsible for the implementation of the Company's internal corporate governance and policy plans, ethics and business conduct. McGlasson oversees all board meetings in her executive position as corporate secretary.

McGlasson has more than 22 years of experience in corporate law, mergers and acquisitions, business and cross-border transactions and securities law. Prior to joining NetSol, Patti practiced at Vogt & Resnick, law corporation. Ms. McGlasson was admitted to practice in California in 1991.

She received her Bachelor of Arts in Political Science in 1987 from the University of California, San Diego and, her Juris Doctor and Masters in Law in Transnational Business from the University of the Pacific, McGeorge School of Law, in 1991 and 1993, respectively. As part of her Masters in Law in Transnational Business, she interned at the law firm of Loeff Claeys Verbeke in Rotterdam, the Netherlands in 1991.

NAEEM GHAURI has been a Director of the Company since 1999 and was the Company's Chief Executive Officer from August 2001 to October 2006.

Naeem Ghauri serves as the Managing Director of NetSol (UK) Ltd., a wholly owned subsidiary of the Company located in London, England. He is also the director of the Global Sales group. Naeem has been instrumental in numerous profitable acquisitions worldwide including VLS, Vroozi™ and NetSol Technologies Europe, Ltd. .

Prior to joining the Company, Naeem was Project Director for Mercedes-Benz Finance Ltd., from 1994-1999. Naeem supervised over 200 project managers, developers, analysis and users in nine European Countries. Naeem earned his degree in Computer Science from Brighton University, England. Mr. Ghauri serves on the board of NetSol Technologies Europe, Ltd., a subsidiary of the Company.

SALIM GHAURI was elected a member of the Board of Directors by shareholders on May 29, 2013 after taking a sabbatical from the board membership in 2012 for a period of one year.

Salim is a founding member of NetSol Technologies, Inc. and is the CEO and Chairman of NetSol Technologies Ltd. located Lahore.

Salim oversees the day to day operation and business affairs in the Asia/Pacific region of the Company. Under his leadership, the Company has become and instantly recognizable name in that region. In his role as CEO of NetSol Technologies Ltd., Salim has led the Asia/Pacific software development team and has been responsible for maintaining as well as developing new relationships with Asia/Pacific companies in the industry.

Salim received his BS degree in Computer Science from the University of Punjab in Lahore, Pakistan. Before establishing NetSol Technologies Ltd., he was a successful IT consultant in Australia. His last assignment was with BHP Steel in Sydney. As a systems integrator, he was responsible for software and hardware solutions. From 1988-89, he consulted with the State Rail Authority of NSW Australia for its MIS reporting. Prior to moving to Australia, he resided in Saudi Arabia, where he started his IT career at Citibank, Riyadh in 1979. Salim Ghauri is credited with setting up the first IT based training institute and a software house in Damam, Saudi Arabia.

In 2007, Mr. Salim Ghauri was appointed as an Honorary Consul for Australia-Punjab Region.

EUGEN BECKERT was appointed to the Board of Directors in August 2001.

Early in his career, Mr. Beckert worked in the technologies and systems development at Mercedes-Benz AG/Daimler Benz AG. In 1992, he was appointed director of Global IT (CIO) for Debis Financial Services, the services division of Daimler Benz. From 1996 to 2000, he acted as director of Processes and Systems (CIO) for Financial Services of DaimlerChrysler Asia Pacific Services. During this period, he was instrumental in the development of NetSol's LeaseSoft (now NFS) and its introduction to several countries as a pilot customer. From 2001 to 2004, he served as Vice President of the Japanese company of DaimlerChrysler Services. Mr. Beckert retired from DaimlerChrysler in November 2006.

A native of Germany, Mr. Beckert received his masters in Engineering and Economics from the University of Karlsruhe, Germany.

Mr. Beckert is chairman of the Nominating and Corporate Governance Committee and a member of the Audit and Compensation Committees.

SHAHID JAVED BURKI was first appointed to the Board of Directors in February 2003.

Mr. Burki enjoyed a distinguished career with the World Bank from 1974 to 1999 where he held a number of senior positions including Chief of Policy Planning (1974-1981); Director of International Relations Department (1981-1987); Director of China Department (1987-1994); and Vice President of Latin America and the Caribbean Region (1994-1999). Upon taking early retirement from the Bank, he became the Chief Executive Officer of EMP Financial Advisors, a consulting company linked with the Washington based EMP Global, a private equity firm and continued that tenure until 2005. He is currently Chairman of the Institute of Public Policy, a think tank associated with the Beacon house National University, Lahore, Pakistan. He also spends some time each year as Senior Visiting Research Fellow at the Institute of South Asian Studies, National Singapore University. In 1996-97 he took leave of absence from the World Bank to take up the position of Finance Minister of Pakistan.

Mr. Burki was educated at Government College, Lahore from where he received M.Sc. in Physics; at Oxford University as a Rhodes Scholar from where he received M.A. (Hons) in Economics; at Harvard University as a Mason Fellow from where he received M.P.A. and also studied for Ph.D. in Economics (not completed). In 1997, he received a Diploma in Advanced Management from Harvard University's Business School. Mr. Burki has authored several books and articles on development issues including: Study of Chinese Communes (Harvard University Press, 1969);

Pakistan Under Bhutto (Macmillan, 1990); Changing Perceptions, Altered Reality: Pakistan's Economy Under Musharraf, 1999-2006 (Oxford University Press, 2007); Pakistan Historical Dictionary, (London, Scare Crow Press); and, South Asia in the New World Order, (Routledge, London).

Mr. Burki is a chairman of the Audit Committee and a member of the Compensation and Nominating and Corporate Governance Committees. Mr. Burki is the Company's Financial Expert on the Audit Committee.

MARK CATON joined the board of directors in 2007.

Mark Caton is currently Vice President of Ciena Financial Inc., a diversified financial services company. He is also the President of Centela Systems, Inc. a distributor of computer peripheral solutions in the multimedia and digital electronic market segment, a position he has held since 2003. Prior to joining Centela, Mr. Caton was President of NetSol Technologies USA, responsible for US sales, from June 2002 to December 2003. He was employed by ePlus from 1997 to 2002 as Senior Account Representative. He was a member of the UCLA Alumni Association Board of Directors and served on the Board of Directors of NetSol from 2002-2003. Mr. Caton is a Chairman of the Compensation Committee and a member of the Audit and Nominating Committees. Mr. Caton received his BA from UCLA in psychology in 1971.

JEFFREY BILBREY joined the Board of Directors in March 2013 to fill a vacancy and was duly elected at the annual shareholders meeting on May 29, 2013.

Jeffrey Bilbrey is currently Vice President of Information Services for Cancer Treatment Centers of America (CTCA) and is responsible for leading a highly talented IS group in providing technology solutions that improve patient care and safety and assist in winning the fight against cancer every day. Prior to CTCA, Bilbrey served as Sr. Vice President, Technology Operations, for the Innovation Group where he was a member of the technology board, guiding the strategic planning for technology products across seven countries. Additionally, his experience includes founding and leading a strategic IT consulting firm, advising on product launches, building an offshore outsourcing operation from the ground up, and leading multi-million multidisciplinary transformational programs.

Jeffrey Bilbrey received his BS in Management Information System from University of Wisconsin, Eau Claire in 1994.

CORPORATE GOVERNANCE

Code of Business Conduct & Ethics

The Company adopted its Code of Business Conduct & Ethics, as amended and restated on September 9, 2013, applicable to every officer, director and employee of the Company, including, but not limited to the Company's principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions. Our Code of Business Conduct & Ethics has been posted on our website and may be viewed at www.netsoltech.com/us/investors/corporate-governance/lang/en .

Audit Committee

The Company has an audit committee whose members are the independent directors of the Company, specifically, Mr. Beckert, Mr. Burki Mr. Caton and Mr. Bilbrey. Mr. Burki is the current chairman of the audit committee.

Audit Committee Financial Expert

The Company has identified its audit chairperson, Mr. Shahid Javed Burki as its audit committee financial expert. Mr. Burki is an independent board member as the term is defined in the Nasdaq Listing Rules. Mr. Burki's experience as Finance Minister of Pakistan, Chief Executive Officer of EMP Financial Advisors, his various roles at the World Bank, and his tenure as both an audit committee member and chair for the Company, provides him with an understanding of generally accepted accounting principles and financial reporting. Additionally, this experience provides an ability to assess the general application of accounting principles in connection with the accounting for estimates, accruals and reserves; experience analyzing financial statements that were comparable in the breadth and complexity of issues that can be reasonably expected to be raised by the Company's financial statements; an understanding of internal control over financial reporting; and an understanding of audit committee functions.

ITEM 11-EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

NetSol Technologies' Named Executive Officers, a group comprised of the Chief Executive Officer, the Chief Financial Officer and the Secretary and General Counsel in the 2012-2013 fiscal year are the following individuals:

Najeeb Ghauri	Chief Executive Officer
Boo Ali	Chief Financial Officer
Patti L. W. McGlasson	Sr. V.P. Legal and Corporate Affairs, Secretary and General Counsel

Compensation Philosophy and Objectives

The Compensation Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and which aligns executives' interests with those of the stockholders by rewarding performance at or above established goals, with the ultimate objective of increasing stockholder value. The philosophy of the Compensation Committee is to evaluate both performance and compensation to ensure that we maintain our ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of our peer companies. To that end, the Compensation Committee believes executive compensation packages should include both cash and equity-based compensation that reward performance as measured against established goals.

Setting Executive Compensation

Management develops our compensation plans by utilizing publicly available compensation data in the media services and technology industries. We believe that the practices of these groups of companies provide us with appropriate compensation benchmarks, because these groups of companies are in similar businesses and tend to compete with us for executives and other employees. For benchmarking executive compensation, we typically review the compensation data we have collected from these groups of companies, as well as a subset of the data from those companies that have a similar number of employees as the Company. The Compensation Committee has determined to utilize the services of a consultant for purposes of comparing our compensation program with similarly situated companies in like industries. The recommendations of these consultants will be utilized by the Committee in determining the appropriate compensation packages. While these consultants may make general recommendations about the size and components of compensation, we anticipate our philosophy to continue on the basis of a pay-for-performance philosophy.

Based on management's analyses and recommendations, the Compensation Committee has approved a pay-for-performance compensation philosophy, which is intended to establish base salaries and total executive compensation (taking into consideration the executive's experience and abilities) that are competitive with those companies with a similar number of employees represented in the compensation data we review.

We work within the framework of this pay-for-performance compensation philosophy to determine each component of an executive's initial compensation package based on numerous factors, including:

• The individual's particular background, track record and circumstances, including training and prior relevant work experience;

• The individual's role with us and the compensation paid to similar persons in the companies represented in the compensation data that we review;

• The demand for individuals with the individual's specific expertise and experience;

• Performance goals and other expectations for the position; and,

• Uniqueness of industry skills.

The terms of each executive officer's compensation are derived from employment agreements negotiated between the Company and the executive. Each executive's employment agreement is generally negotiated to cover a one to three-year period, and prescribes the base salary and other annual payments, if any, to the executive. Employment agreements for all executive officers are approved by the Board of Directors and the Compensation Committee. Employment agreements for other executives are approved by the Company's Chief Executive Officer.

2013 Executive Compensation Components

For the fiscal year ended June 30, 2013, the principal components of compensation that our named executive officers were eligible to receive were:

- Base salary;
- Long Term Equity Incentive Compensation;
- Performance-based incentive compensation (discretionary bonus); and,
- Perquisites and other personal benefits.

Base Salary

An executive's base salary is evaluated together with components of the executive's other compensation to ensure that the executive's total compensation is consistent with our overall compensation philosophy.

The base salaries were established in arms-length negotiations between the executive and the Company, taking into account their extensive experience, knowledge of the industry, track record, and achievements on behalf of the Company.

Base salaries are adjusted annually by the Compensation Committee. As of June 30, 2013, the annual review had not been completed and annual adjustments had not occurred.

Annual Bonus

Our compensation program includes eligibility for bonuses as rewarded by the Compensation Committee. All executives are eligible for annual performance-based cash bonuses in accordance with Company policies. The compensation committee takes into consideration the executive’s performance during the previous year to determine eligibility for discretionary bonuses. Further, the compensation committee will review, if applicable, the performance criteria set forth in an executive’s previous year’s agreement and will determine if the executive has met such criteria in order to achieve the bonus. The Company’s bonus criteria at the executive management level, is typically based on a gross revenue and per share profit targets.

During our fiscal year ended 2013, none of the named executives were awarded cash bonuses.

Long-Term Equity Incentive Compensation

We believe that long-term performance is achieved through an ownership culture that encourages long-term participation by our executives in equity-based awards. Our various Employee Stock Option Plans allow us to grant stock options to employees. We currently make initial equity awards of stock options to new executives and certain non-executive employees in connection with their employment with the Company. Annual grants of options, if any, are approved by the Compensation Committee.

Equity Incentives.   Executives, certain non-executive employees, and directors who join us may be awarded stock awards and/or stock option grants after they join the Company. These grants have an exercise price equal to the fair market value of our common stock on the grant date. Such awards are intended to provide the executive with incentive to build value in the organization over an extended period of time. The size of the stock option award is also reviewed in light of the executive's track record, base salary, other compensation and other factors to ensure that the executive's total compensation is in line with our overall compensation philosophy. A review of all components of compensation is conducted when determining equity awards to ensure that total compensation conforms to our overall philosophy and objectives.

Equity incentives provided to executives are determined by the Fair Market Value of our common stock on the grant date were provided to the executives as an adjustment of their overall compensation while taking in to account the need to continue to incentivize the executive to build value in the organization. Each executive's stock award was based on an analysis of the Compensation Committee of an appropriate overall cash compensation for each individual taking into account their position and compensation at similarly situated companies. Each executive's stock award was based on a desired overall compensation cash value less the base salary as approved by the Compensation Committee.

Perquisites and Other Personal Benefits

We provide named executive officers with perquisites and other personal benefits that we believe are reasonable and consistent with our overall compensation program to better enable the Company to attract and retain superior employees for key positions. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to executive officers.

We maintain benefits and perquisites that are offered to all employees, including health insurance and dental insurance. Benefits and perquisites may vary in different country locations and are consistent with local practices and regulations.

Termination Based Compensation

Upon termination of employment, all executive officers with a written employment agreement are entitled to receive severance payments under their employment agreements. In determining whether to approve, and as part of the process of setting the terms of, such severance arrangements, the Compensation Committee recognizes that executives and officers often face challenges securing new employment following termination. Further, the Committee recognizes that many of the named executives and officers have participated in the Company since its founding and that this participation has not resulted in a return on their investments. Termination and Change in Control Payments considered both the risk and the dedication of these executives' service to the Company.

Our Chief Executive Officer has an employment agreement that provides, if his employment is terminated without cause or if the executive terminates the agreement with Good Reason, he is entitled to (a) all remaining salary to the end of the date of termination, plus salary from the end of the employment term through the end of the third anniversary of the date of termination, and (b) the continuation by the Company of medical and dental insurance coverage for him and his family until the end of the employment term and through the end of the third anniversary of the date of termination. Provided, however, if such benefits cannot be continued for this extended period, the Executive shall receive cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued. These agreements further provide for vesting of all options and restrictive stock grants, if any.

Our Chief Financial Officer has an employment agreement that provides, if his employment is terminated without cause or if the executive terminates the agreement with Good Reason, he is entitled to (a) all remaining salary to the end of the date of termination, plus salary from the end of the employment term through the end of the second month of the date of termination, and (b) the continuation by the Company of medical and dental insurance coverage for him and his family until the end of the employment term and through the end of the two months from the date of termination. Provided, however, if such benefits cannot be continued for this extended period, the Executive shall receive cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued. These agreements further provide for vesting of all options and restrictive stock grants, if any.

The Secretary of the Company has an employment agreement that provides, if she is terminated without cause or if the executive terminates the agreement with Good Reason, she is entitled to (a) all remaining salary to the end of the date of termination, plus salary from the end of the employment term through the end of the first anniversary of the date of termination, and (b) the continuation by the Company of medical and dental insurance coverage for her and her family until the end of the employment term and through the end of the first anniversary of the date of termination. Provided, however, if such benefits cannot be continued for this extended period, the Executive shall receive cash (including a tax-equivalency payment for Federal, state and local income and payroll taxes assuming Executive is in the maximum tax bracket for all such purposes) where such benefits may not be continued. These agreements further provide for vesting of all options and restrictive stock grants, if any.

Tax and Accounting Implications

Deductibility of Executive Compensation

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that we may not deduct compensation of more than $1,000,000 that is paid to certain individuals. We believe that compensation paid under the management incentive plans is generally fully deductible for federal income tax purposes.

Accounting for Stock-Based Compensation

Commencing on July 1, 2006, we began accounting for stock-based payments, including awards under our Employee Stock Option Plans, in accordance with the requirements of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or SFAS 123(R).

Summary Compensation

The following table shows the compensation for the fiscal year ended June 30, 2013 and June 30, 2012, earned by our Chairman and Chief Executive Officer, our Chief Financial Officer who is our Principal Financial and Accounting Officer, and others considered to be executive officers of the Company.

Name and Principle Position	Fiscal Year Ended	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($)		All Other Compensation ($)		Total ($)
Najeeb Ghauri	2013	$ 393,750	$ -	$ -	$ 56,273	(2)	$ 75,141	(3)	$ 525,164
CEO & Chairman	2012	$ 389,063	$ -	$ 32,500	$ 168,820	(2)	$ 78,884	(3)	$ 669,267
Boo-Ali Siddiqui	2013	$ 92,400	$ -	$ 6,850	$ -		$ -		$ 99,250
Chief Financial Officer	2012	$ 90,300	$ -	$ 17,875	$ -		$ -		$ 108,175
Patti L. W. McGlasson	2013	$ 143,000	$ -	$ 6,850	$ -	(2)	$ 23,947	(4)	$ 173,797
Secretary, General Counsel	2012	$ 139,750	$ -	$ 17,875	$ -	(2)	$ 23,863	(4)	$ 181,488

(1) The stock was awarded as compensation to the officers and related expense was recognized in the consolidated financial statements.
(2) 50,000 options were granted to officers during last year vesting quarterly starting from December 2012 quarter and related expense was recognized in the consolidated financial statements.
(3) Consists of $36,000 and $36,000 paid for automobile and travel allowance, $16,758 and $16,758 on account of life insurance and $22,383 and $26,126 paid for medical and dental insurance premiums paid by the Company for participation in the health insurance program for the fiscal years ended June 30, 2013 and 2012, respectively.
(4) Consists of $9,000 and $9,000 paid for automobile allowance and $14,947 and $14,863 paid for medical and dental insurance premiums for participation in the health insurance program for the fiscal year ended June 30, 2013 and 2012 respectively.

Grants of Plan-Based Awards

In July, 2012, Mr. Boo-Ali Siddiqui and Ms. McGlasson were each granted, 1,250 shares of common stock of the Company. The shares vest immediately and were approved by the Compensation Committee as an incentive for the named officers.

Discussion of Summary Compensation Table

The terms of our executive officers' compensation are derived from our employment agreements with them and the annual performance review by our Compensation Committee. The terms of Mr. Najeeb Ghauri employment agreement with the Company were the result of negotiations between the Company and the executives and were approved by our Compensation Committee and Board of Directors. The terms of Ms. McGlasson’s and Mr. Siddiqui’s employment agreement with the Company were the result of negotiations between our Chief Executive Officer and the employees and were approved by our Compensation Committee and Board of Directors.

Employment Agreement with Najeeb Ghauri

Effective January 1, 2007, the Company entered into an Employment Agreement with our Chief Executive Officer, Najeeb Ghauri (the “CEO Agreement”). The CEO Agreement was amended effective January 1, 2008, January 1, 2010 and again on July 25, 2013. Pursuant to the CEO Agreement, as amended, between Mr. Ghauri and the Company (the "CEO Agreement"), the Company agreed to employ Mr. Ghauri as its Chief Executive Officer. The term of employment automatically renews for 36 additional months unless notice of intent to terminate is received by either party at least 6 months prior to the end of the term. Under the CEO Agreement, Mr. Ghauri is entitled to an annualized base salary of $474,000 and is eligible for annual bonuses at the discretion of the Compensation Committee.

The bonuses are payable in shares of common stock of the Company based on the gross revenue for the fiscal year ending June 31, 2014 of: 25,000 at $56,000,000 and 25,000 at $62,000,000. Mr. Ghauri also earns 5,000 shares of common stock for each quarter of service commencing with the first quarter ended September 30, 2013 through the end of the fiscal year. Mr. Ghauri is entitled to four weeks of paid vacation per calendar year, is to receive a car allowance totaling $3,000 per month for the term of the CEO Agreement, and the Company shall pay premiums not to exceed $16,600 (or $4,150 quarterly) for life insurance for the Executive.

The CEO Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the CEO Agreement, if he terminates his employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, he shall be entitled to all remaining salary from the termination date until 36 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and, continuation of all health related plan benefits for a period of 36 months. He shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If he is terminated by the Company for Cause (as described below), or at the end of the employment term, he shall not be entitled to further compensation. Under the CEO Agreement, Good Reason includes the assignment of duties inconsistent with his title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 30 miles, if the Company asks him to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the CEO Agreement by the Company. Under the CEO Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform his duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the CEO Agreement by Mr. Ghauri.

The above summary of the CEO Agreement is qualified in its entirety by reference to the full text of the CEO Agreement, a copy of which was filed as an exhibit to the Company’s 10-KSB for the fiscal year ended June 30, 2007. The above summary of the First Amendment is qualified in its entirety by reference to the full text of the Amendment, a copy of which was filed as an exhibit to the Company’s 10-KSB for the fiscal year ended June 30, 2008. The above summary of the Second Amendment is qualified in its entirety by reference to the full text of the Amendment, a copy of which was filed as an exhibit to the Company’s 10-Q for the fiscal year ended December 31, 2009. The above summary of the Third Amendment is qualified in its entirety by reference to the full text of the Amendment, a copy of which was filed as an exhibit to the Company’s 8-K filed on July 26, 2013.

Employment Agreement with Boo-Ali Siddiqui

Effective April 1, 2010, the Company entered into an Employment Agreement with our Chief Financial Officer, Mr. Boo-Ali Siddiqui. Pursuant to the Employment Agreement between Mr. Siddiqui and the Company (the "CFO Agreement"), the original term of Mr. Siddiqui’s agreement was automatically extended for 30 day periods from March 31, 2011. According to the terms of the CFO Agreement, it automatically extends for an additional thirty day periods unless notice of intent to terminate is received by either party at least two weeks prior to the end of the term.

This Agreement was amended on July 25, 2013. Under the CFO Agreement, as amended, Mr. Siddiqui is entitled to an annualized base salary of $125,000 and is eligible for annual bonuses at the discretion of the Chief Executive Officer. Mr. Siddiqui shall also receive a total of 10,000 shares of common stock to be granted in 25% tranches upon each completion of a quarter of service commencing with the quarter ending September 30, 2013 and continuing until June 30, 2014.

The CFO Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the CFO Agreement, if he terminates his employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, he shall be entitled to all remaining salary from the termination date until 2 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and, continuation of all health related plan benefits for a period of 2 months. He shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If he is terminated by the Company for Cause (as described below), or at the end of the employment term, he shall not be entitled to further compensation. Under the CFO Agreement, Good Reason includes the assignment of duties inconsistent with his title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 60 miles, if the Company asks him to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the CFO Agreement by the Company. Under the CFO Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform his duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the CFO Agreement by Mr. Siddiqui.

The above summary of the CFO Agreement is qualified in its entirety by reference to the full text of the CFO Agreement, a copy of which was filed as an exhibit to the Company’s 10-Q for the quarter ended December 31, 2009. The above summary of the amendment to the CFO Agreement is qualified in its entirety by reference to the full text, a copy of which was filed as an exhibit to the Company’s 8-K filed on July 26, 2013.

Employment Agreement with Patti L. W. McGlasson

Effective May 1, 2006, the Company entered into an Employment Agreement with our Secretary and General Counsel, Ms. Patti L. W. McGlasson. Pursuant to the Employment Agreement between Ms. McGlasson and the Company (the "General Counsel Agreement"), the Company agreed to employ Ms. McGlasson as its Secretary and General Counsel from the date of the General Counsel Agreement through March 31, 2013. According to the terms of the General Counsel Agreement, the term of the agreement automatically extends for an additional one year periods unless notice of intent to terminate is received by either party at least 6 months prior to the end of the term. The General Counsel Agreement was amended on July 25, 2013 (the General Counsel Agreement and all amendments referred to as the “GC Agreement”) Under the GC Agreement, Ms. McGlasson is entitled to an annualized base salary of $171,600, 20,000 shares of common stock to be granted in 25% tranches after each quarter of service, and is eligible for annual bonuses at the discretion of the Chief Executive Officer. In addition, Ms. McGlasson is entitled to participate in the Company's stock option plans and, is entitled to four weeks of paid vacation per calendar year.

The General Counsel Agreement also includes provisions respecting severance, non-solicitation, non-competition, and confidentiality obligations. Pursuant to the General Counsel Agreement, if she terminates her employment for Good Reason (as described below), or, is terminated prior to the end of the employment term by the Company other than for Cause (as described below) or death, she shall be entitled to all remaining salary from the termination date until 12 months thereafter, at the rate of salary in effect on the date of termination, immediate vesting of all options and, continuation of all health related plan benefits for a period of 12 months. She shall have no obligation to seek other employment and any income so earned shall not reduce the foregoing amounts. If she is terminated by the Company for Cause (as described below), or at the end of the employment term, she shall not be entitled to further compensation. Under the General Counsel Agreement, Good Reason includes the assignment of duties inconsistent with her title, a material reduction in salary and perquisites, the relocation of the Company's principal office by 60 miles, if the Company asks her to perform any act which is illegal, including the commission of a crime or act of moral turpitude, or a material breach of the General Counsel Agreement by the Company. Under the General Counsel Agreement, Cause includes conviction of crime involving moral turpitude, failure to perform her duties to the Company, engaging in activities which are directly competitive to or intentionally injurious to the Company, or any material breach of the General Counsel Agreement by Ms. McGlasson.

The above summary of the General Counsel Agreement is qualified in its entirety by reference to the full text of the General Counsel Agreement, a copy of which was filed as an exhibit to the Company's 10-KSB for the fiscal year ended June 30, 2006 on September 27, 2006. The above summary is also qualified in its entirety by reference to the full text of the Amendment to the General Counsel Agreement, a copy of which was filed as an exhibit to the Company's 10-Q for the quarter ended March 31, 2010. The above summary is also qualified in its entirety by reference to the full text of the Amendment to the General Counsel Agreement, a copy of which was filed as an exhibit to the Company's 8-K filed on July 26, 2013.

Outstanding Equity Awards at Fiscal Year-End

The following table shows grants of stock options and grants of unvested stock awards outstanding on June 30, 2013, the last day of our fiscal year, to each of the individuals named in the Summary Compensation Table.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS (#) EXERCISABLE	NUMBER OF SECURITIES UNDERLYING OPTIONS (#) UNEXERCISABLE	OPTION EXERCISE PRICE ($)	OPTION EXPIRATION DATE
Najeeb Ghauri	25,000		25.00	6/2/16
	30,000		6.50	2/12/19
	50,000		7.50	11/7/21
Boo-Ali Siddiqui	-		-	
	-		-	
Patti L. W. McGlasson	1,000		30.00	1/1/14
	2,000		26.40	3/26/14
	3,000		50.00	3/26/14
	2,000		16.50	7/7/15
	2,000		22.50	7/7/15
	1,000		16.00	7/23/17

Pension Benefits

We do not have any qualified or non-qualified defined benefit plans.

Potential Payments upon Termination or Change of Control

Generally, regardless of the manner in which a named executive officer's employment terminates, he is entitled to receive amounts earned during his term of employment. Such amounts include the portion of the executive's base salary that has accrued prior to any termination and not yet been paid and unused vacation pay.

In addition, we are required to make the additional payments and/or provide additional benefits to the individuals named in the Summary Compensation Table in the event of a termination of employment or a change of control, as set forth below.

Change-in-Control Payments

Najeeb Ghauri, Chairman and Chief Executive Officer

In the event that Mr. Ghauri is terminated as a result of a change in control (defined below), he is entitled to all payments due in the event of a termination for Cause or Good Reason and: (a) a onetime payment equal to the product of 2.99 and his salary during the preceding 12 months; (b) a one-time payment equal to the higher of (i) Executive’s bonus for the previous year and (ii) one percent of the Company’s consolidated gross revenues for the previous twelve (12) months; and, at the election of the Executive, (c) a one-time cash payment equal to the cash value of all shares eligible for exercise upon the exercise of Executive’s Options then currently outstanding and exercisable as if they had been exercised in full (the “Change of Control Termination Payment”). In the event Executive elects to receive the cash value of the shares underlying Executive’s options, he shall so notify the Company of his intent.

The following table summarizes the potential payments to Mr. Ghauri assuming his employment with us was terminated or a change of control occurred on June 30, 2013, the last day of our most recently completed fiscal year.

BENEFITS AND PAYMENTS	CHANGE OF CONTROL	TERMINATION UPON DEATH OR DISABILITY	TERMINATION BY US WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON
Base Salary	$ 1,181,250	$ -	$ 1,181,250
Bonus	-		
Salary Multiple Pay-out	1,177,313		
Bonus or Revenue One-time Pay-Out	507,972		
Net Cash Value of Options	1,195,000		
Total	$ 4,061,535	$ -	$ 1,181,250

Boo-Ali Siddiqui, Chief Financial Officer

In the event that Mr. Siddiqui is terminated as a result of a change in control (defined below), he is entitled to all payments due in the event of a termination for Cause or Good Reason and: (a) a onetime payment equal to the product of 2.99 and his salary during the preceding 6 months; (b) a one-time payment equal to the higher of (i) Executive's bonus for the previous year and (ii) one-half of one percent of the Company's consolidated gross revenues for the previous six (6) months (the "Change of Control Termination Payment").

The following table summarizes the potential payments to Mr. Siddiqui assuming his employment with us was terminated or a change of control occurred on June 30, 2013, the last day of our most recently completed fiscal year.

BENEFITS AND PAYMENTS	CHANGE OF CONTROL	TERMINATION UPON DEATH OR DISABILITY	TERMINATION BY US WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON
Base Salary	$ 46,200	$ -	$ 46,200
Bonus	-		
Salary Multiple Pay-out	138,138		
Bonus or Revenue One-time Pay-Out	253,986		
Net Cash Value of Options	-		
Total	$ 438,324	$ -	$ 46,200

Patti L. W. McGlasson, Senior V.P. of Legal and Corporate Affairs, Secretary and General Counsel

In the event that Ms. McGlasson is terminated as a result of a change in control (defined below), she is entitled to all payments due in the event of a termination for Cause or Good Reason and: (a) a onetime payment equal to the product of 2.99 and her salary during the preceding 12 months; (b) a one-time payment equal to the higher of (i) Executive's bonus for the previous year and (ii) one-half of one percent of the Company's consolidated gross revenues for the previous twelve (12) months; and, at the election of the Executive, (c) a one-time cash payment equal to the cash value of all shares eligible for exercise upon the exercise of Executive's Options then currently outstanding and exercisable as if they had been exercised in full (the "Change of Control Termination Payment"). In the event Executive elects to receive the cash value of the shares underlying Executive's options, she shall so notify the Company of her intent.

The following table summarizes the potential payments to Ms. McGlasson assuming her employment with us was terminated or a change of control occurred on June 30, 2013, the last day of our most recently completed fiscal year.

BENEFITS AND PAYMENTS	CHANGE OF CONTROL	TERMINATION UPON DEATH OR DISABILITY	TERMINATION BY US WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON
Base Salary	$ 143,000	$ -	$ 143,000
Bonus	-		
Salary Multiple Pay-out	417,853		
Bonus or Revenue One-time Pay-Out			