NETSOL TECHNOLOGIES INC
Form PRE 14A
July 10, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
SCHEDULE 14A
(Rule 14a-101)
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

x Preliminary Proxy Statement
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Under Rule 14a-12
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

NetSol Technologies, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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

July __, 2006

To Our Stockholders:

We cordially invite you to attend a special meeting of stockholders to be held at 10:00 a.m. on August 25, 2006 at the offices of NetSol Technologies, Inc., 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302. The office phone number is 818-222-9195.

At the special meeting, you will be asked to consider and vote upon a proposal, to the extent required by and for purposes of NASD Marketplace Rule 4350(i), to approve the full issuance and exercise of: (i) shares of common stock underlying convertible notes; (ii) shares of common stock underlying shares of preferred stock; (iii) shares of common stock as a dividend payable or redemption under the terms of the preferred stock; (iv) and, upon exercise of the warrants all issued as part of a financing in the amount of $5.5 million (the “Financing”). The financing, consisting of convertible notes, which are in an aggregate principal amount of $5.5 million and bear interest at the rate of 12%, were issued on June 15, 2006 and are due on June 15, 2007.

You will also be asked to approve the amendment of the articles of incorporation of the Company to permit the board of directors to designate the rights and privileges of the Company’s preferred stock by resolution as permitted by Nevada Revised Statutes 78.1955.

Additionally, you will be asked to act on such other business as may properly come before the special meeting.

This is your opportunity as a shareholder to exercise your vote in the best interests of your Company.

Whether or not you attend the Special meeting, it is important that your shares be represented and voted at the meeting. Therefore, I urge you to promptly vote and submit your proxy card in the postage paid envelope as soon as possible.

Your participation in the special meeting, via proxy or in person, is important and allows you a voice in determining the future of your Company.

Enclosed is a notice of special meeting and proxy statement containing detailed information concerning the business to be conducted at the meeting. Whether or not you plan to attend the special meeting, we urge you to read this material carefully. On behalf of the Board of Directors, I would like to express our appreciation for your continued interest in the Company. We look forward to seeing you at the meeting.

Sincerely,

Najeeb U. Ghauri	Naeem U. Ghauri
Chairman of the Board	Chief Executive Officer

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To be held August 25, 2006

TO THE STOCKHOLDERS OF NETSOL TECHNOLOGIES, INC.

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders, including any adjournments or postponements thereof, of NetSol Technologies, Inc. (the "Company"), will be held on August 25, 2006 at 10:00 a.m. local time at the offices of the Company located at 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302 for the following purposes:

1. to consider and vote upon a proposal, to the extent required by and for purposes of NASD Marketplace Rule 4350(i), to approve the full issuance and exercise of: (i) shares of common stock underlying convertible notes; (ii) shares of common stock underlying shares of preferred stock; (iii) shares of common stock as a dividend payable or redemption under the terms of the preferred stock; (iv) and, upon exercise of the warrants all issued as part of a financing in the amount of $5.5 million (the “Financing”). The financing, consisting of convertible notes, which are in an aggregate principal amount of $5.5 million and bear interest at the rate of 12%, were issued on June 15, 2006 and are due on June 15, 2007.

2. to consider and vote on the amendment of our articles of incorporation to permit the board of directors to designate the rights and privileges of the Company’s authorized preferred stock by resolution pursuant to Nevada Revised Statutes section 78.1955;

3. To consider such other matters as may properly come before the Special Meeting.

The proceeds of the Financing were used to fund the initial payment of the McCue Systems, Inc. acquisition; to fund the final cash portion of the payment to former CQ Systems, Ltd. shareholders as part of the acquisition of CQ Systems, Ltd. (now NetSol-CQ) by the Company; and, for working capital. The Company is not seeking approval of either the McCue Systems, Inc. or CQ Systems, Ltd. acquisition in this proxy.

In connection with the Financing, we seek approval from the shareholders of an issuance of common stock which exceeds 20% of our issued and outstanding common stock as of May 5, 2006. Should stockholder approval of the issuance of the shares of common stock upon conversion of the notes and preferred stock and exercise of the warrants not be obtained, the convertible notes would only be converted into and the exercise of warrants would only be permitted to the extent that such conversion and exercise would not, when aggregated with the McCue Systems, Inc. transaction, result in an issuance of 20% or more of the issued and outstanding shares, excluding treasury shares, of common stock as of May 5, 2006.

Only stockholders of record as shown on the books of the Company at the close of business on July 7, 2006, the record date and time fixed by the Board of Directors, will be entitled to vote at the meeting and any adjournment thereof.

By order of the Board of Directors
NetSol Technologies, Inc.

Naeem U. Ghauri
Chief Executive Officer

July ___, 2006
Calabasas, California

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TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE SIGN, DATE AND RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE WHETHER OR NOT YOU EXPECT TO ATTEND IN PERSON. STOCKHOLDERS WHO ATTEND THE MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON IF THEY DESIRE.

NetSol Technologies, Inc.
23901 Calabasas Road Suite 2072
Calabasas, CA 91302

PROXY STATEMENT GENERAL INFORMATION

SOLICITATION OF PROXIES

This Proxy Statement is furnished to holders of the common stock, par value $.001 per share, of NetSol Technologies, Inc., a Nevada corporation (the "Company"), in connection with the solicitation by the Company's Board of Directors of proxies for use at the Company's Special Meeting of Stockholders (the "Special Meeting") to be held on August 25, 2006 at 10:00 a.m. local time at the offices of the Company located at 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302. The purpose of the Special Meeting and the matters to be acted on there are set forth in the accompanying Notice of Special Meeting of Stockholders.

The Special Meeting has been called for the purpose of the following:

1. to consider and vote upon a proposal, to the extent required by and for purposes of NASD Marketplace Rule 4350(i), to approve the full issuance and exercise of: (i) shares of common stock underlying convertible notes; (ii) shares of common stock underlying shares of preferred stock; (iii) shares of common stock as a dividend payable or redemption under the terms of the preferred stock; (iv) and, upon exercise of the warrants all issued as part of a financing in the amount of $5.5 million (the “Financing”). The financing, consisting of convertible notes, which are in an aggregate principal amount of $5.5 million and bear interest at the rate of 12%, were issued on June 15, 2006 and are due on June 15, 2007.

2. To amend the articles of incorporation to permit the board of directors to designate the rights and privileges of the Company’s authorized preferred stock pursuant to Nevada Revised Statutes Section 78.1955.

3. To consider such other matters as may properly come before the Special Meeting.

The board of directors solicits the accompanying proxy to those stockholders of record as of the close of business on July 7, 2006. These materials are expected to be first mailed to stockholders on or about July 25, 2006. The cost of making the solicitation includes the cost of preparing and mailing the Notice of Special Meeting, Proxy Statement and proxy and the payment of charges made by brokerage houses and other custodians, nominees and fiduciaries for forwarding documents to stockholders. In certain instances, directors and officers of the Company may make special solicitations of proxies either in person or by telephone. Expenses incurred in connection with special solicitations are expected to be nominal. The Company will bear all expenses incurred in connection with the solicitation of proxies for the Special Meeting.

VOTING AND REVOCATION OF PROXIES

A stockholder giving a proxy on the enclosed form may revoke it at any time prior to the actual voting at the Special Meeting by filing written notice of the termination of the appointment with an officer of the Company, by attending the Special Meeting and voting in person or by filing a new written appointment of a proxy with an officer of the Company. The revocation of a proxy will not affect any vote taken prior to the revocation. Unless a proxy is revoked or there is a direction to abstain on one or more proposals, it will be voted on each proposal and, if a choice is made with respect to any matter to be acted upon, in accordance with such choice. If no choice is specified, the proxies intend to vote the shares represented thereby to approve Proposals No. 1 and 2 as set forth in the accompanying Notice of Special Meeting of Stockholders, and in accordance with their best judgment on any other matters that may properly come before the Special Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF.

As of July 6, 2006, there were 16,169,982 shares of common stock issued and outstanding. Common stock is the only class of outstanding voting securities as of that date. Each share of common stock is entitled to one vote.

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock, its only class of outstanding voting securities as of July 6, 2006, by (i) each person who is known to the Company to own beneficially more than 5% of the outstanding Common Stock with the address of each such person, (ii) each of the Company's present directors and officers, and (iii) all officers and directors as a group:

Name and Address	Number of Shares(1)(2)	Percentage Beneficially owned(5)
Najeeb Ghauri (3)	1,212,650	7.49%
Naeem Ghauri (3)	1,061,367	6.56%
Salim Ghauri (3)	1,177,416	7.28%
Jim Moody (3)	148,000	*
Eugen Beckert (3)	139,000	*
Shahid Javed Burki (3)	150,000	*
Derek Soper (3)	150,000	*
Patti McGlasson (3)	120,000	*
Tina Gilger(3)	51,731	*
Aqeel Karim Dhedhi (4)	870,067	5.38%
The Tail Wind Fund Ltd.(6)(7)	1,600,828	9.90%
All officers and directors as a group (nine persons)	4,210,164	26.04%

* Less than one percent

(1) Except as otherwise indicated, the Company believes that the beneficial owners of the common stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities.

(2) Beneficial ownership is determined in accordance with the rules of the Commission and generally includes voting or investment power with respect to securities. Shares of common stock relating to options currently exercisable or exercisable within 60 days of July 6, 2006 are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them. Includes shares issuable upon exercise of options exercisable within 60 days as follows: Mr. Najeeb Ghauri, 1,350,000; Mr. Naeem Ghauri, 1,360,000; Mr. Salim Ghauri, 1,370,000; Mr. Jim Moody, 170,000; Mr. Eugen Beckert, 240,000; Mr. Shahid Burki, 150,000; Mr. Derek Soper, 150,000; Ms. Tina Gilger, 50,000; and Ms. Patti McGlasson, 100,000.

(3) Address c/o NetSol Technologies, Inc. at 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302.

(4) Address: 605 Continental Trade Center, Khaybran-E-Iqbal, Karachi, Pakistan.

(5) Shares issued and outstanding as of July 6, 2006 were 16,169,982.

(6) Address: The Bank of Nova Scotia Trust Company (Bahamas) Ltd., Windermere House, 404 East Bay Street, P.O. Box SS-5539, Nassau, Bahamas. Tail Wind Advisory & Management Ltd., a UK corporation authorized and regulated by the Financial Services Authority of Great Britain ("TWAM"), is the investment manager for The Tail Wind Fund Ltd., and David Crook is the CEO and controlling shareholder of TWAM. Each of TWAM and David Crook expressly disclaims any equitable or beneficial ownership of the shares being referred to hereunder and held by The Tail Wind Fund Ltd

(7) Subject to the Ownership Limitation (defined below), The Tail Wind Fund Ltd. ("Tail Wind") would own a total of 2,500,001 shares of Common Stock, including 1,666,667 shares of Common Stock issuable upon conversion of $2,750,000 in principal amount of the issuer's 12% Convertible Notes Due June 15, 2007 ("Notes") issued to Tail Wind on June 21, 2006, and (ii) 833,334 shares of Common Stock issuable upon exercise of Warrants issued to Tail Wind on such date ("Warrants"). In accordance with Rule 13d-4 under the Securities Exchange Act of 1934, as amended, because the number of shares of Common Stock into which the Reporting Person's Notes and Warrants are convertible and exercisable is limited, pursuant to the terms of such instruments, to that number of shares of Common Stock which would result in the Reporting Person having beneficial ownership of 9.9% of the total issued and outstanding shares of Common Stock (the "Ownership Limitation"), Tail Wind Fund Ltd. disclaims beneficial ownership of any and all shares of Common Stock that would cause the Reporting Person's beneficial ownership to exceed the Ownership Limitation. In accordance with the Ownership Limitation, Tail Wind, based upon 16,169,982 shares of common stock outstanding, beneficially owns 2,500,001 shares of Common Stock and disclaims beneficial ownership of 899,173 shares of Common Stock.

INTERESTS OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No director of executive officer holds a substantial interest, either directly or indirectly, in any matter to be acted upon.

VOTING AT THE MEETING

Only stockholders of record at the close of business on July 7, 2006 are entitled to notice of and to vote at the Special Meeting or any adjournments thereof. Each share of Common Stock is entitled to one vote on the matters to be presented at the Special Meeting.

A majority of the votes entitled to be cast on matters to be considered at the Special Meeting, present in person or by proxy, will constitute a quorum at the Special Meeting. If a share is represented for any purpose at the Special Meeting, it is deemed to be present for all other matters. Abstentions and broker nonvotes will be counted for purposes of determining the presence or absence of a quorum. "Broker nonvotes" are shares held by brokers or nominees which are present in person or represented by proxy, but which are not voted on a particular matter because instructions have not been received from the beneficial owner. Under applicable Nevada law, the effect of broker nonvotes on a particular matter depends on whether the matter is one as to which the broker or nominee has discretionary voting authority.

RETURNED PROXY CARDS WHICH DO NOT PROVIDE VOTING INSTRUCTIONS

Proxies that are signed and returned will be voted in the manner instructed by a stockholder. If you sign and return your proxy card with no instructions, the proxy will be voted "For" with respect to the item set forth in the Proposal.
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SHARES HELD IN “STREET NAME”

If your shares are held in “street name”, your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares in accordance with directions provided by your broker.

CHANGING YOUR VOTE

You may revoke your proxy at any time before the proxy is voted at the Special Meeting. In order to do this, you must:

- send us written notice, stating your desire to revoke your proxy, or

- send us a signed proxy that bears a later date than the one you intend to revoke, or

- attend the Special Meeting and vote in person. In this case, you must notify the Inspector of Elections or Secretary of the Company that you intend to vote in person.

A list of those stockholders entitled to vote at the Special Meeting will be available for a period of ten days prior to the Special Meeting for examination by any stockholder at the Company's principal executive offices, 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302, and at the Special Meeting.

QUESTIONS AND ANSWERS ABOUT THE MATTERS SUBJECT TO VOTE

What is being voted on?

The issuance of shares of common stock of the Company upon the conversion notes, and conversion of preferred stock into which the convertible notes may convert, to investors in the Financing; the issuance of shares of common stock as payment of dividends, at the Company's discretion, and on redemption under the anticipated terms of the convertible preferred shares; and, to approve the issuance of shares of common stock upon the exercise of warrants issued to these same investors.

The amendment of our articles of incorporation to permit the board of directors to designate the rights and privileges of the Company's authorized preferred stock pursuant to Nevada Revised Statutes Section 78.1955.

Why are we seeking approval for the issuance of the shares of common stock?

As a result of being listed on the Nasdaq Capital Market, issuances of our common stock are subject to the NASD Marketplace Rules, such as Rule 4350. For example, under rule 4350(i)(1)(D) stockholder approval must be sought when in connection with a transaction other than a public offering involving the sale, issuance or potential issuance by the issuer of common stock (or securities convertible into or exercisable into common stock) equal to 20% or more of the common stock or 20% or more of the voting power outstanding before the issuance for less than the greater of book or market value of the stock.

The terms of the Financing provide anti-dilution protection to the investors which may result in common stock being issued to the investors at less than the market value of the stock on the Financing issuance date. Additionally, the common stock which would be issued if the Convertible Notes were to be converted into convertible preferred stock and such preferred stock was converted into common stock, dividends owed to the preferred stockholders were paid in common stock, the preferred stock were redeemed by the issuance of common stock and the warrants were exercised would constitute the issuance of more than 20% of the common stock issued and outstanding on the Financing date. Further the percentage of the Financing used to fund the purchase of McCue Systems, Inc. aggregated using Nasdaq rules with the shares of common stock issued to the McCue Systems, Inc. shareholders in the acquisition exceeds 20% of the issued and outstanding shares, excluding treasury stock, on the date in which we entered into the stock purchase agreement with the McCue Systems, Inc. shareholders. Accordingly, stockholder approval is required for the issuance of shares of common stock contemplated by the Financing. However, the Convertible Notes are due in one year and bear interest at the rate of 12% per annum. Should stockholder approval of the common stock issuance not be obtained, we will pay the principal and interest on the note per their terms.

On May 6, 2006, we entered into an agreement to acquire the shares of McCue Systems, Inc. from its shareholders. The stock purchase agreement was attached to our current report on form 8-K filed on May 9, 2006. Pursuant to the terms of the stock purchase agreement, as consideration for the shares of McCue Systems, Inc., we shall pay the following:

(a) an amount equal to 50% of McCue's total revenue for the twelve months ending December 31, 2005, after an adjustment, if necessary, for any revenue occurring outside McCue's ordinary scope of operations, multiplied by 1.5 of which 50% shall be paid in shares of restricted common stock of NetSol at the 30 day volume weighted average price ("VWAP") for each of the 30 trading days prior to the execution of the Stock Purchase Agreement or at the VWAP for each of the 30 trading days prior to November 30, 2005 whichever is greater. VWAP shall be calculated by taking the closing price of NetSol's common stock as traded on the NASDAQ Capital Market under the symbol NTWK ("NetSol Shares") for each of the 30 trading days used in the VWAP calculation multiplied by the daily volume for each of the 30 trading days used in the VWAP calculation, the product of the preceding calculation is divided by 30 and then divided by the average of the daily volume for each of the 30 trading days used in the VWAP calculation and 50%

payable in U.S. Dollars payable at Closing;
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(b) an amount equal to 25% of McCue's total revenue for the twelve months ending December 31, 2006 after an adjustment for Extraordinary Revenue multiplied by 1.5 of which 50% is payable in cash and 50% is payable in shares of restricted common stock of NetSol payable by June 30, 2007; and,

(c) an amount equal to 25% of McCue's total revenue for the twelve months ending December 31, 2007 after an adjustment for Extraordinary Revenue multiplied by 1.5 of which 50% is payable in cash and 50% is payable in shares of restricted common stock of NetSol payable by June 30, 2008.

Under no circumstances shall the total number of shares of common stock issued to the McCue Shareholders or to others as part of the cash portion of the consideration exceed 19.9% of the issued and outstanding shares of common stock, less treasury shares, of the Company at May 6, 2006.

McCue's total revenues for December 31, 2005 were $5,647,637. Multiplying that total by the multiple of 1.5 results in total consideration of $8,471,456 of which 50% is payable on or about June 30, 2006, or $4,235,728. Of this consideration, $2,117,864 is payable in cash and $2,117,864 is payable in restricted shares of common stock of the Company. The price per share was determined based on the VWAP calculations set forth above to be $2.21 per share, resulting in a total of 958,213.5 shares being due.

The next payment is due on June 30, 2007 and is based on the McCue revenue for the year ending December 31, 2006. The final payment is due on June 30, 2008 and is based on the McCue revenue for the year ending December 31, 2007. Assuming that the revenues remain constant over the next two years, the Company would issue as consideration an additional 958,213.5 shares for a total shares issuance of 1,916,427. While the number of shares issuable to McCue may increase or decrease over the pay-out schedule, the stock purchase agreement contains a provision which prohibits the issuance of any shares in excess of 19.9% of the issued and outstanding shares as of May 5, 2006. Excess consideration will be paid in cash.

As of May 5, 2006, there were 15,148,292 shares of common stock of the Company issued and outstanding, less treasury shares. Nasdaq Marketplace rule 4350 prohibits, under certain conditions, the Company from issuing more than 20% of the issued and outstanding shares, excluding treasury stock, within a certain time period without stockholder approval. At May 5, 2006, 20% of the issued and outstanding shares of common stock was 3,029,658. The current calculation of shares to be issued to McCue shareholders constitute 12.65% of the issued and outstanding shares at that date.

Once again, the Convertible Notes are due in one year and bear interest at the rate of 12% per annum. Should stockholder approval of the common stock issuance not be acquired, we will pay the principal and interest on the note per their terms.

Approximately 38.51% of the funds raised in the Financing, specifically $2,117,864, were used to pay the initial cash portion of the McCue acquisition. The notes are convertible into preferred shares which convert into common stock at the per share price of $1.65 per share. The proposed preferred shares contain a 7% dividend. If the entire cash portion of the McCue acquisition were to be converted into common stock, the number of shares being issued at $1.65 per share would be equal to 1,283,554 shares. As part of the financing, warrants to acquire shares of common stock at an exercise price of $2.00 per share were issued. 38.51% of the warrants could be exercised to acquire 641,833 shares of common stock. Assuming that the stockholders approve the issuance of the common stock related to the Convertible Notes, we would issue approximately 3,841,814 shares of common stock related to the McCue acquisition. This number represents 25.36% of the issued and outstanding shares, less treasury stock, as of May 5, 2006. This represents 812,156 shares more than the maximum amount of shares of common stock which may be issued without stockholder approval. As conversion of the portion of the Convertible Notes attributable to the McCue transaction into preferred stock and common stock together with the shares proposed to be issued to the McCue shareholders would result in an issuance in excess of 20% of the issued and outstanding shares, less treasury stock, of the Company as of the McCue

transaction date, we are seeking approval from our stockholders for the issuance of these overage shares of common stock.

Assuming stockholders approve the issuance of the shares of common stock in to which the preferred stock is convertible and the shares of common stock which may be acquired by the exercise of warrants, and, assuming the investors exercise all of the warrants, the Company would be required to issue a minimum of 8,000,000 shares of common stock to the investors in the Financing. The number of issued and outstanding shares on the issuance date of the Convertible Note of June 15, 2006, excluding treasury stock, was 16,166,982. As issuance of the common stock underlying the Financing alone will exceed 20% of the issued and outstanding shares of common stock of the Company, excluding treasury stock, on June 15, 2006, we are seeking approval from our stockholders for the issuance of these shares of common stock.

Why are we seeking to amend our articles of incorporation?

Our articles of incorporation authorize the issuance of up to 5 million shares of preferred stock.

In a Certificate of Amendment of the Articles of Incorporation of the Company filed with the Nevada Secretary of State on March 20, 2002, the articles of incorporation were amended to permit the board of directors to designate by resolution the voting powers, designations, preferences, limitations, restrictions and relative rights of the preferred stock.

In a Certificate of Amendment of the Articles of Incorporation of the Company filed with the Nevada Secretary of State on August 12, 2003, filed for the purpose of accomplishing a reverse stock split, the provision of Article III of the Articles of Incorporation providing such powers to the board of directors was inadvertently omitted.

We propose to amend the articles of incorporation to return these powers back to the board of directors.

(Proposal No. One)

APPROVAL TO ISSUE THE AMOUNT OF SHARES OF COMMON STOCK UPON CONVERSION OF THE PREFERRED SHARES; AS DIVIDENDS OR REDEMPTION UNDER THE TERMS OF THE PREFERRED SHARES; ON EXERCISE OF WARRANTS.

The discussion in this proxy statement of the terms of the financing dated June 15, 2006, by and between the Company and the investors is subject to, and is qualified in its entirety by reference to the stock purchase agreement, the convertible note, the warrant, the investor rights agreement and the certificate of designation (collectively referred to as the "Financing Documents"). A copy of the form of the Financing Documents is attached as Annex A-E to this proxy statement and is incorporated in this proxy statement by reference.

Introduction

The purpose of Proposal 1 is to obtain the stockholder approval necessary under applicable Nasdaq Stock Market rules to allow for the full issuance and exercise of: (i) shares of Common Stock underlying Convertible Notes; (ii) underlying shares of preferred stock; (iii) as dividends and/or redemption under the terms of the preferred shares; and, (iv) upon exercise of the Warrants issued by the Company to the investors in the Financing.

Description of the Financing

On June 15, 2006, the Company entered into an agreement with 5 accredited investors whereby the Company issued 5 convertible notes for an aggregate principal value of $5,500,000. These notes bear interest at the rate of 12% per annum and are due in full one year from the issuance date or on June 15, 2007 (the "Financing"). In connection with the Financing, the Company entered into the following documents: A Convertible Note and Warrant Purchase Agreement (the "SPA")(Attached to this proxy statement as Annex A), 12% Convertible Notes (the "Convertible Notes")(Attached to this proxy statement as Annex B), Common Stock Purchase Warrant (the "Warrants")(Attached to this proxy statement as Annex C), Investor Rights Agreement (the "IRA")(Attached to this proxy statement as Annex D) and agreed to a form of 7% Cumulative Convertible Preferred Stock (the "Preferred Stock")(Attached to this proxy statement as Annex E).

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

Pursuant to the terms of the SPA, each purchaser received a Convertible Note in the amount of their investment and a Warrant in an amount equal to 50% of the aggregate principal value of the Notes divided by the conversion value (currently $1.65 per share). Based on an aggregate principal value of $5,500,000, the investors were entitled to Warrants to acquire up to 1,666,667 shares of common stock at an exercise price per warrant of $2.00. The Warrants may be exercised at such time after our stockholders approve the issuance of shares underlying such warrants until five years from the issuance date of the warrants, or June 15, 2011.

The Convertible Notes may immediately convert into shares of common stock of the Company at the conversion value (initially set at one share per $1.65 of principal dollar) to the extent that such conversion does not violate Nasdaq Market Place rules. Also, under the terms of the Financing, the Convertible Notes will convert into shares of Preferred

Stock upon the approval of this proposal by the stockholders.

The Preferred Stock (which certificate of designation is attached to Annex E and which will be filed with the Nevada Secretary of State only upon approval of the Proposals set forth in this Proxy) are convertible into shares of common stock at such time and at such value as is set forth in the Certificate of Designation. The initial conversion value shall be $1.65. The conversion value is subject to adjustment as set forth in the Certificate of Designation. The holders of the Preferred Stock are entitled to receive cumulative dividends at the rate of 7% per annum from the date of issuance of each share of preferred stock until paid. The dividends may be paid, at the Company's option, in cash or in shares of common stock in arrears on the first business day of each calendar quarter of each year. The Company may force a conversion of the Preferred Stock in the event that the market price of the Company's common stock is greater than 200% of the conversion value. If any shares of the Preferred Stock remain outstanding on June 15, 2009, the Company shall redeem such shares for an amount in cash equal to the liquidation preference plus all accrued but unpaid dividends. The Preferred Stock bears voting rights in an amount equal to the conversion value of the preferred stock into common stock, without giving effect to any anti-dilution provisions of the Preferred Stock. Conversion of the Preferred Stock is subject to beneficial ownership caps of from 4.9% to 9.9% of the total number of shares of common stock of the Company then issued and outstanding.

The IRA requires the Company to register, on a registration statement to be filed with the SEC within 8 business days of the special shareholders' meeting, such number of shares of common stock into which the Preferred Stock is convertible, such number of shares of that represent 150% of the shares of common stock for issuance upon the conversion of the preferred stock or notes, as the case may be and 100% of the shares of common stock for issuance upon the exercise of the warrants.

Description of Securities

The Convertible Notes may convert into our common stock, par value $0.001 per share. We only have one class of common stock. Our capital stock consists of 45,000,000 shares of common stock, par value $.001 per share and 5,000,000 shares of preferred stock, $.001 par value. Each share of common stock is entitled to one vote at annual or special stockholders meetings.

The Convertible Notes will convert into the Preferred Stock following stockholder approval. No shares of preferred stock have been issued. We are seeking your approval to amend the articles of incorporation to permit the board of directors to designate the rights and privileges of the Preferred Stock. The Preferred Stock (which certificate of designation is attached to Annex E and which will be filed with the Nevada Secretary of State only upon approval of the proposals set forth in this Proxy) are convertible into shares of common stock at such time and at such value as is set forth in the Certificate of Designation. The initial conversion value shall be $1.65. The conversion value is subject to adjustment as set forth in the Certificate of Designation. The holders of the Preferred Stock are entitled to receive cumulative dividends at the rate of 7% per annum from the date of issuance of each share until paid. The dividends may be paid, at the Company's option, in cash or in shares of common stock in arrears on the first business day of each calendar quarter of each year. The Company may force a conversion of the Preferred Stock in the event that the market price of the Company's common stock is greater than 200% of the conversion value. If any shares of the Preferred Stock remain outstanding on June 15, 2009, the Company shall redeem such shares for an amount in cash equal to the liquidation preference plus all accrued but unpaid dividends. The Preferred Stock bears voting rights in an amount equal to the conversion value of the preferred stock into common stock, without giving effect to any anti-dilution provisions of the Preferred Stock. Conversion of the Preferred Stock is subject to beneficial ownership caps of from 4.9% to 9.9% of the total number of shares of common stock of the Company then issued and outstanding.

The terms of the warrant agreements permit exercise for a period of five years and contain standard weighted average anti-dilution protections.

The McCue Acquisition

On May 6, 2006, the Company entered into an agreement to acquire all of the issued and outstanding shares of common stock of McCue Systems, Inc., a California corporation. McCue Systems, Inc. has over 30 years of experience in developing business solutions for the equipment and vehicle leasing industry as a provider of lease/loan portfolio management software for banks, leasing companies and manufacturers. Its flagship product, LeasePak, simplifies lease/loan administration and asset management by accurately tracking leases, loans and equipment from origination through end-of-term and disposition.

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

With common customers and common goals, we believe the acquisition of McCue provides a complimentary North American presence to our global offering of software and services to the lease and finance industry.

The stock purchase agreement was filed as part of our current report on form 8-K filed on May 9, 2006. Pursuant to the terms of the stock purchase agreement, as consideration for the shares of McCue Systems, Inc., we shall pay the following:

(a) an amount equal to 50% of McCue's total revenue for the twelve months ending December 31, 2005, after an adjustment, if necessary, for any revenue occurring outside McCue's ordinary scope of operations, multiplied by 1.5 of which 50% shall be paid in shares of restricted common stock of NetSol at the 30 day volume weighted average price ("VWAP") for each of the 30 trading days prior to the execution of the Stock Purchase Agreement or at the VWAP for each of the 30 trading days prior to November 30, 2005 whichever is greater. VWAP shall be calculated by taking the closing price of NetSol's common stock as traded on the NASDAQ Small Cap Market under the symbol NTWK ("NetSol Shares") for each of the 30 trading days used in the VWAP calculation multiplied by the daily volume for each of the 30 trading days used in the VWAP calculation, the product of the preceding calculation is divided by 30 and then divided by the average of the daily volume for each of the 30 trading days used in the VWAP calculation and 50% payable in U.S. Dollars payable at Closing;

(b) an amount equal to 25% of McCue's total revenue for the twelve months ending December 31, 2006 after an adjustment for Extraordinary Revenue multiplied by 1.5 of which 50% is payable in cash and 50% is payable in shares of restricted common stock of NetSol payable by June 30, 2007; and,

(c) an amount equal to 25% of McCue's total revenue for the twelve months ending December 31, 2007 after an adjustment for Extraordinary Revenue multiplied by 1.5 of which 50% is payable in cash and 50% is payable in shares of restricted common stock of NetSol payable by June 30, 2008.

Under no circumstances shall the total number of shares of common stock issued to the McCue Shareholders or to others as part of the cash portion of the consideration exceed 19.9% of the issued and outstanding shares of common stock, less treasury shares, of the Company at May 6, 2006.

McCue's total revenues for December 31, 2005 were $5,647,637. Multiplying that total by the multiple of 1.5 results in total consideration of $8,471,456 of which 50% was paid at closing on June 30, 2006, or $4,235,728. Of this

consideration, $2,117,864 is payable in cash and $2,117,864 is payable in restricted shares of common stock of the Company. The price per share was determined based on the VWAP calculations set forth above to be $2.21 per share, resulting in a total of 958,213.5 shares being due at closing.

The next payment is due on June 30, 2007 and is based on the McCue revenue for the year ending December 31, 2006. The final payment is due on June 30, 2008 and is based on the McCue revenue for the year ending December 31, 2007. Assuming that the revenues remain constant over the next two years, the Company would issue as consideration an additional 958,213.5 shares for a total shares issuance of 1,916,427. While the number of shares issuable to McCue may increase or decrease over the pay-out schedule, the stock purchase agreement contains a provision which prohibits the issuance of any shares in excess of 19.9% of the issued and outstanding shares as of May 5, 2006. Excess consideration will be paid in cash.

As of May 5, 2006, there were 15,148,292 shares of common stock of the Company issued and outstanding, less treasury shares. Accordingly, the current calculation of shares to be issued to McCue shareholders constitute 12.65% of the issued and outstanding shares at that date

In accordance with Nasdaq Stock Market rules, the aggregate number of shares of Common Stock issued or issuable by the Company: (i) in the McCue transaction and (ii) upon conversion of that portion of the Financing attributable to the McCue transaction (collectively, the "Aggregated Shares"), shall not exceed 19.99% of the outstanding shares of Common Stock as of May 5, 2006 (the "Maximum Common Stock Issuance"), unless the issuance of that number of Aggregated Shares that would result in the issuance of an amount in excess of the Maximum Common Stock Issuance (the "Overage Amount") shall first be approved by the Company's stockholders.

Nasdaq Listing Requirements and the Necessity of Stockholder Approval

The Common Stock is listed on the Nasdaq Capital Market and, as such, the Company is subject to the Nasdaq Marketplace Rules. Nasdaq Marketplace Rule 4350(i)(1)(D)(ii) (the "Nasdaq 20% Financing Rule") requires that an issuer obtain stockholder approval prior to the issuances of common stock or securities convertible into or exchangeable for common stock at a price equal to or less than the greater of market or book value of such securities (on an as-converted basis) if such issuance equals 20% or more of the common stock or voting power of the issuer outstanding before the transaction.

The terms of the Financing provide anti-dilution protection to the investors which may result common stock being issued to the investors at less than the market value of the stock on the Financing issuance date. Additionally, the common stock which would be issued if the Convertible Notes were to be converted into the Preferred Stock and the Preferred Stock was converted into common stock, dividends owed to the preferred stockholders were paid in common stock, the preferred stock were redeemed by the issuance of common stock and the Warrants were exercised would constitute the issuance of more than 20% of the common stock issued and outstanding on the Financing date. Further the percentage of the Financing used to fund the purchase of McCue Systems, Inc. aggregated using Nasdaq rules with the shares of common stock issued to the McCue Systems, Inc. shareholders in the acquisition exceeds 20% of the issued and outstanding shares, excluding treasury stock, on the date in which we entered into the stock purchase agreement with the McCue Systems, Inc. shareholders. Accordingly, stockholder approval is required for the issuance of shares of common stock contemplated by the Financing. However, the Convertible Notes are due in one year and bear interest at the rate of 12% per annum. Should stockholder approval of the common stock issuance not be obtained, we will pay the principal and interest on the note per their terms.

As of May 5, 2006, there were 15,148,292 shares of common stock of the Company issued and outstanding, less treasury shares. Accordingly, the current estimate of the number of shares to be issued to McCue shareholders constitutes 12.65% of the issued and outstanding shares at May 5, 2006.

Approximately 38.51% of the funds raised in the Financing, specifically $2,117,864, are being used to pay the initial cash portion of the McCue acquisition. The notes are convertible into preferred shares which convert into common stock at the per share price of $1.65 per share. The certificate of designation of the Preferred Stock provides a 7% dividend. If the entire cash portion of the McCue acquisition were to be converted into common stock, the number of

shares being issued at $1.65 per share would be equal to 1,283,554 shares. As part of the financing, warrants to acquire shares of common stock at an exercise price of $2.00 per share were issued. 38.51% of the warrants could be exercised to acquire 641,833 shares of common stock. Assuming that the stockholders approval of the common stock related to the Convertible Notes, we would issue approximately 3,841,814 shares of common stock related to the McCue acquisition. This number represents 25.36% of the issued and outstanding shares, less treasury stock, as of May 5, 2006. Assuming that the Nasdaq Stock Market Staff will aggregate the shares of common stock to be issued to former McCue Systems, Inc. shareholders together with the common stock to be issued upon conversion of that portion of the Convertible Notes and Warrants attributable to the McCue transaction, (a total potential of 3,841,814) as having been issued as part of the same transaction, such amount is in excess of 20% of the outstanding shares of Common Stock on May 5, 2006.

We are also assuming that the Nasdaq Staff shall further take the position that, as a result of the weighted average anti-dilution protection afforded to the investors under the Financing, there is a potential that shares of common stock into which the Convertible Notes could convert and the Warrants could be exercised could be issued at less than the market value of the Common Stock on June 15, 2006 and, therefore, the Nasdaq 20% Financing Rule is implicated.

The Company's stockholders are being asked to approve the issuance to the investors in the Financing of the allow for the full issuance and exercise of: (i) shares of Common Stock underlying Convertible Notes; (ii) of shares of common stock underlying shares of Preferred Stock; (iii) as dividends and/or redemption under the terms of the Preferred Stock; and, (iv) upon exercise of the Warrants issued by the Company to the investors in the Financing.

Required Vote

The affirmative vote of a majority of the issued and outstanding shares of the Common Stock entitled to vote thereon is necessary for approval of the issuance of: (i) shares of Common Stock underlying Convertible Notes; (ii) shares of Common Stock underlying shares of Preferred Stock; (iii) as dividends and/or redemption under the terms of the preferred shares; and, (iv) upon exercise of the Warrants issued by the Company to the investors in the Financing.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE ISSUANCE OF THE AMOUNT OF SHARES OF COMMON STOCK UPON CONVERSION OF THE PREFERRED SHARES; AS DIVIDENDS OR REDEMPTION UNDER TERMS OF THE PREFERRED SHARES AND AN EXERCISE OF THE WARRANTS.

(Proposal No. Two)

TO AMEND THE ARTICLES OF INCORPORATION OF THE COMPANY TO PERMIT THE BOARD OF DIRECTORS TO DESIGNATE BY RESOLUTION ACCORDING TO NEVADA REVISED STATUTES 78.1955 THE POWERS, PREFERENCES AND RELATIVE RIGHTS OF PREFERRED STOCK AND QUALITIFCATIONS, LIMITATIONS AND RESTRICTIONS THEREOF

The articles of incorporation of the Company authorize the issuance of up to 5 million shares of preferred stock.

Nevada Revised Statutes section 78.1955 states in pertinent part that ". . .If the voting powers, designations, preferences, limitations, restrictions and relative rights of any class or series of stock have been established by a resolution of the board of directors pursuant to a provision in the articles of incorporation, a certificate of designation setting forth the resolution and stating the number of shares for each designation must be signed by an officer of the corporation and filed with the Secretary of State. A certificate of designation signed and filed pursuant to this section must become effective before the issuance of any shares of the class or series. . ."

In a Certificate of Amendment of the Articles of Incorporation of the Company filed with the Nevada Secretary of State on March 20, 2002, the articles of incorporation were amended to permit the board of directors to designate by resolution the voting powers, designations, preferences, limitations, restrictions and relative rights of the preferred stock.

In a Certificate of Amendment of the Articles of Incorporation of the Company filed with the Nevada Secretary of State on August 12, 2003, the provision of Article III of the Articles of Incorporation providing such powers to the board of directors was inadvertently omitted.

The Company proposes to amend Article III of the Articles of Incorporation to add the following provisions:

"The board of directors of the Corporation (the "Board of Directors") is expressly authorized to provide for issuance of all or any shares of the Preferred Stock in one or more series, and to fix for each such series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such series and as may be permitted by the Nevada Revised Statutes (as amended from time to time, the "NRS"), including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at any time or times and at such price or prices: (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; (vi) entitled to vote separately or together with any other series or class of stock of the Corporation; or (v) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Corporation at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions."

The amendment of the articles requires the affirmative vote of a majority of shares represented and voting, in person or by proxy, at the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE AMENDMENT OF ARTICLES OF INCORPORATION TO INCLUDE THE POWER OF THE BOARD OF DIRECTORS BY RESOLUTION TO DESIGNATE THE RIGHTS AND PRIVILEGES OF THE PREFERRED STOCK AS PROVIDED FOR BY NEVADA REVISED STATUTES 78.1955.

Other Matters

The Board of Directors of the Company does not intend to present any business at the Special Meeting other than the matters specifically set forth in this Proxy Statement and knows of no other business to come before the Special Meeting. However, on all matters properly brought before the Special Meeting by the Board or by others, the persons named as proxies in the accompanying proxy will vote in accordance with their best judgment.

Incorporation by Reference

We incorporate the following documents into this proxy statement by reference.

· Our Amended Annual Report for the fiscal year ended June 30, 2005 filed with the SEC on form 10-KSB/A on March 21, 2006.

· Our reports filed with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the annual report referred to above on form 10-QSB for the period ended March 31, 2006 filed on May 9, 2006; for the period ended December 31, 2005 filed on February 9, 2006; and, for the period ended September 30, 2005 filed on November 10, 2005.

Upon written or oral request, we will provide, at no cost, to each person to whom a proxy statement has been delivered a copy of any and all of the information that has been incorporated by reference into this proxy statement, but not delivered with this proxy statement. Requests for this information should be directed to Company Secretary at (818) 222-9195, or by mail to NetSol Technologies, Inc. 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302.

It is important that your shares are represented and voted at the Special Meeting, whether or not you plan to attend. Accordingly, we respectfully request that you sign, date and mail your Proxy in the enclosed envelope as promptly as possible.

Dated: July __, 2006
Calabasas, California
BY ORDER OF THE BOARD OF DIRECTORS

Najeeb Ghauri
Chairman

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Naeem Ghauri, with full power of substitution, as his or her Proxy to represent and vote, as designated below, all of the shares of the Common Stock of NetSol Technologies, Inc., registered in the name of the undersigned on August 25, 2006 with the powers the undersigned would possess if personally present at the Special Meeting of Stockholders to be held at the offices of the Company located at 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302 at 10:000 A.M. local time and at any adjournment thereof, hereby revokes any proxy or proxies previously given.

1. ISSUANCE OF SHARES OF COMMON STOCK UNDERLYING CONVERTIBLE NOTES, PREFERRED STOCK, AS DIVIDEND PAYMENTS AND/OR REDEMPTION UNDER THE PREFERRED STOCK AND UPON EXERCISE OF WARRANTS IN THE FINANCING.

o For o Against o Abstain

2. AMENDMENT OF ARTICLES OF INCORPORATION

o For o Against o Abstain

Discretionary authority is hereby granted with respect to such other matters as may properly come before the Special Meeting.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED. IF NO DIRECTION IS GIVEN, THE PROXY WILL BE VOTED "FOR" PROPOSALS #1 AND #2, AND IN THE PROXY'S DISCRETION ON ANY OTHER MATTERS TO COME BEFORE THE MEETING.

Dated:_____ , 2006

_____
(Signature)

_____
(Second signature)

PLEASE DATE AND SIGN ABOVE exactly as your
name appears on your Stock Certificate,
indicating where appropriate, official
position or representative capacity.

ANNEX A

CONVERTIBLE NOTE AND WARRANT PURCHASE AGREEMENT

CONVERTIBLE NOTE AND WARRANT PURCHASE AGREEMENT

by and among

Netsol Technologies, Inc., as Issuer and Seller

and

the Purchasers named herein, as Purchasers

with respect to Seller's

12% Convertible Notes Due June 15, 2007

and Warrants to Purchase Common Stock

June 15, 2006

Table of Exhibits and Schedules

Exhibit A	Form of 12% Convertible Note Due June 15, 2007
Exhibit B	Form of Certificate of Designation of the Series A 7% Cumulative Convertible Preferred Stock
Exhibit C	Form of Warrant
Exhibit D	Form of Investor Rights Agreement
Exhibit E	Form of Opinion of Seller's Counsel
Exhibit F	Form of Escrow Agreement
Schedule 1	Purchasers and Amount of Notes and Warrants Purchased
Schedule 3.10	Litigation
Schedule 3.11	Absence of Certain Changes
Schedule 3.15	Intellectual Property
Schedule 3.17	Preemptive Rights
Schedule 3.19	Subsidiaries and Investments
Schedule 3.20	Capitalization
Schedule 3.21	Options, Warrants, Rights
Schedule 3.22	Employees, Employment Agreements and Employee Benefit Plans

CONVERTIBLE NOTE AND WARRANT PURCHASE AGREEMENT

This CONVERTIBLE NOTE AND WARRANT PURCHASE AGREEMENT ("Agreement") is dated as of June 15, 2006, by and among NetSol Technologies, Inc., a Nevada corporation (the "Seller"), and each of the persons listed on Schedule 1 hereto (each is individually referred to as a "Purchaser" and collectively, the "Purchasers").

W I T N E S S E T H:

WHEREAS, each of the Purchasers is willing to purchase from the Seller, and the Seller desires to sell to the Purchasers, up to an aggregate of $5,500,000 in principal amount of the Seller's 12% Convertible Notes Due June 15, 2007 ("Notes"), and Common Stock Purchase Warrants (the "Warrants") entitling the holders thereof to purchase shares of the Seller's common stock, $0.001 par value (the "Common Stock"), for an aggregate purchase price of up to $5,500,000, as more fully set forth herein; and

WHEREAS, each of the Purchasers and the Seller desires to exchange the Notes for shares of the Seller's Series A 7% Cumulative Convertible Preferred Stock, $1,000 liquidation preference per share, par value $0.001 per share (the "Preferred Stock"), in the event that the Seller obtains Shareholder Approval (as defined herein);

NOW THEREFORE, in consideration of the mutual promises and representations, warranties, covenants and agreements set forth herein, the parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I - PURCHASE AND SALE

1.1 Purchase and Sale.

(a) Closing. Subject to the terms and conditions set forth in this Agreement, at the closing of the transactions contemplated under this Agreement (the "Closing"), each Purchaser shall purchase, severally and not jointly, and the Seller shall issue and sell, to each Purchaser, such principal amount of Notes and such number of Warrants set forth opposite such Purchaser's name on Schedule 1 hereto. The Closing shall occur as promptly as practicable, but no later than five (5) business days, following satisfaction or waiver of the conditions set forth in Sections 6.1 and 6.2, at the offices of Peter J. Weisman, P.C., 335 Madison Avenue, Suite 1702, New York, NY 10017, or on such other date and at such other location as the Seller and Purchasers shall mutually agree.

(b) Purchase Price. The purchase price (the "Purchase Price") to be paid by each Purchaser to the Seller to acquire the Notes and the applicable Warrants at Closing shall be equal to the total amount set forth on Schedule 1 hereto opposite such Purchaser's name as the Purchase Price for such Purchaser.

(c) Warrants. The total number of Warrants on Schedule 1 shall equal 50% of the Purchase Price divided by the Conversion Value (as defined in the Certificate of Designation).

(d) Definitions. The shares of Common Stock issuable upon conversion of the Notes or Preferred Stock (including without limitation in payment upon purchase or redemption thereof) or upon payment of dividends on the Preferred Stock or interest on the Notes are referred to herein as the "Conversion Shares," and the shares of Common Stock issuable upon exercise of the Warrants are referred to herein as the "Warrant Shares." The date on which the Closing occurs is the "Closing Date".

1.2 Terms of the Notes, Preferred Stock and Warrants. The terms and provisions of the Notes are more fully set forth in the form of Note, attached hereto as Exhibit A. The terms and provisions of the Preferred Stock are set forth in the form of Certificate of Designation of Series A 7% Cumulative Convertible Preferred Stock, attached hereto as Exhibit B (the "Certificate of Designation"). The terms and provisions of the Warrants are more fully set forth in the form of Common Stock Purchase Warrant, attached hereto as Exhibit C.

ARTICLE II - TRANSFERS AND LEGENDS

2.1 Transfers. Except as required by federal securities laws and the securities law of any state or other jurisdiction within the United States, the Notes, the Preferred Stock, Conversion Shares, Warrants and Warrant Shares (collectively, the "Securities") may be transferred, in whole or in part, by any of the Purchasers at any time. In the case of Notes or Preferred Stock, such transfer may be effected by delivering written transfer instructions to the Seller, and the Seller shall reflect such transfer on its books and records and reissue Notes or certificates evidencing the Preferred Stock, as the case may be, upon surrender of such Notes or certificates evidencing the Preferred Stock being transferred. Any such transfer shall be made by a Purchaser in accordance with applicable law. In connection with any transfer of Securities other than pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"), or to the Seller, the Seller may require the transferor thereof to furnish to the Seller an opinion of counsel selected by the transferor, such counsel and the form and substance of which opinion shall be reasonably satisfactory to the Seller and Seller's counsel, to the effect that such transfer does not require registration under the Securities Act; provided, that in the case of a transfer of Conversion Shares and/or Warrant Shares pursuant to Rule 144 under the Securities Act, no opinion shall be required if the transferor provides the Seller with a customary seller's representation letter, and if such sale is not pursuant to subsection (k) of Rule 144, a customary broker's representation letter and Form 144. Notwithstanding the foregoing, the Seller hereby consents to and agrees to register on the books of the Seller and with any transfer agent for the securities of the Seller, without any such legal opinion, any transfer of Securities by a Purchaser to an Affiliate of such Purchaser, provided that the transferee certifies to the Seller that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act and that it is acquiring the Securities solely for investment purposes (subject to the qualifications hereof) and not with a view to, or for, resale, distribution or fractionalization thereof in whole or in part in violation of the Securities Act. The Seller shall reissue certificates evidencing the Securities upon surrender of certificates evidencing the Securities being transferred in accordance with this Section 2.1. An "Affiliate" means any Person (as such term is defined below) that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 144 under the Securities Act. With respect to a Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser. A "Person" means any individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision of any thereof) or other entity of any kind.

2.2 Legends. The certificates representing the Securities, unless such Securities are registered under the Securities Act or eligible for resale without registration pursuant to Rule 144(k) under the Securities Act, shall bear the following legends:

"THE SHARES REPRESENTED BY, OR ACQUIRABLE UPON CONVERSION OR EXERCISE OF SECURITIES EVIDENCED BY, THIS [NOTE] [CERTIFICATE] HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT UNLESS, IN THE OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY, SUCH REGISTRATION IS NOT REQUIRED."

"THE SALE, TRANSFER OR ASSIGNMENT OF THE SECURITIES REPRESENTED BY THIS [NOTE] [CERTIFICATE] IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN INVESTOR RIGHTS AGREEMENT DATED AS OF JUNE 15, 2006, AS AMENDED FROM TIME TO TIME, AMONG THE COMPANY AND CERTAIN HOLDERS OF ITS OUTSTANDING SECURITIES. COPIES OF SUCH AGREEMENT MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THIS CERTIFICATE TO THE SECRETARY OF THE COMPANY."

ARTICLE III - REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Seller represents and warrants to the Purchasers as follows:

3.1 Corporate Existence and Power; Subsidiaries. The Seller and its Subsidiaries are corporations duly incorporated, validly existing and in good standing under the laws of the state in which they are incorporated, and have all corporate powers required to carry on their business as now conducted. The Seller and its Subsidiaries are duly qualified to do business as a foreign corporation and are in good standing in each jurisdiction where the character of the property owned or leased by them or the nature of their activities makes such qualification necessary, except for those jurisdictions where the failure to be so qualified would not have a Material Adverse Effect on the Seller or any of its Subsidiaries. For purposes of this Agreement, the term "Material Adverse Effect" means, with respect to any person or entity, a material adverse effect on its and its Subsidiaries' condition (financial or otherwise), business, properties, assets, liabilities (including contingent liabilities), results of operations or current prospects, taken as a whole, on the transactions contemplated hereby or by the agreements and instruments to be entered into in connection herewith or therewith, or on the authority or ability of the Seller to perform its obligations hereunder or under the Related Documents. True and complete copies of the Seller's Articles of Incorporation, as amended, and Bylaws, as amended, as currently in effect and as will be in effect on the Closing Date (collectively, the "Articles and Bylaws"), have previously been provided to the Purchasers. For purposes of this Agreement, the term "Subsidiary" or "Subsidiaries" means, with respect to any entity, any corporation or other organization of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are directly or indirectly owned by such entity or of which such entity is a partner or is, directly or indirectly, the beneficial owner of 50% or more of any class of equity securities or equivalent profit participation interests, or is considered a "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X promulgated by the Commission under the Exchange Act. The Seller has no Subsidiaries other than those listed on Schedule 3.1 hereto, each of which, unless otherwise indicated, is wholly-owned by the Seller.

3.2 Corporate Authorization. The execution, delivery and performance by the Seller of this Agreement, the Notes, the Warrants, the Certificate of Designation, the Investor Rights Agreement and each of the other documents executed pursuant to and in connection with this Agreement (collectively, the "Related Documents"), and the consummation of the transactions contemplated hereby and thereby (including, but not limited to, the sale and delivery of the Notes, Preferred Stock and the Warrants, and the subsequent issuance of the Conversion Shares upon conversion of the Notes or Preferred Stock and the Warrant Shares upon exercise of the Warrants) have been duly authorized, and no additional corporate or stockholder action is required for the approval of this Agreement, except that Shareholder Approval is required to issue Conversion Shares (under the Notes) and Warrant Shares in excess of the Issuable Maximum (as defined below). The Conversion Shares and the Warrant Shares have been duly reserved for issuance by the Seller (without regard to any limitations on issuance or beneficial ownership). This Agreement and the Related Documents have been or, to the extent contemplated hereby or by the Related Documents, will be duly executed and delivered and constitute the legal, valid and binding agreement of the Seller, enforceable against the Seller in accordance with their terms, except as may be limited by bankruptcy, reorganization, insolvency, moratorium and similar laws of general application relating to or affecting the enforcement of rights of creditors, and except as enforceability of its obligations hereunder are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3.3 Charter, Bylaws and Corporate Records. The minute books of the Seller and its Subsidiaries contain complete and accurate records of all meetings and other corporate actions of the board of directors, committees of the board of directors, incorporators and stockholders of the Seller and its Subsidiaries. All material corporate decisions and actions have been validly made or taken. All corporate books, including without limitation the share transfer register, comply with applicable laws and regulations and have been regularly updated. Such books fully and correctly reflect all the decisions of the stockholders.

3.4 Governmental Authorization. Except as otherwise specifically contemplated in this Agreement and the Related Documents, and except for: (i) the filings referenced in Sections 5.10 and 5.11; (ii) the filing of the Certificate of Designation; (iii) the filing of a Form D with respect to the Notes, Preferred Stock and Warrants under Regulation D under the Securities Act; (iv) the filing of the Registration Statement with the Commission; (v) the application(s) to each trading market for the listing of the Conversion Shares and the Warrant Shares for trading thereon; and (vi) any filings required under state securities laws that are permitted to be made after the date hereof, the execution, delivery and performance by the Seller of this Agreement and the Related Documents, and the consummation of the transactions contemplated hereby and thereby (including, but not limited to, the sale and delivery of the Notes, Preferred Stock and Warrants and the subsequent issuance of the Conversion Shares and Warrant Shares upon conversion of the Notes, Preferred Stock or otherwise or exercise of the Warrants, as applicable) by the Seller require no action by or in respect of, or filing with, any governmental body, agency, official or authority.
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3.5 Non-Contravention. The execution, delivery and performance by the Seller of this Agreement and the Related Documents, and the consummation by the Seller of the transactions contemplated hereby and thereby (including the issuance of the Conversion Shares and Warrant Shares) do not and will not (a) contravene or conflict with the Articles (as amended by the Certificate of Designation) and Bylaws of the Seller and its Subsidiaries or any material agreement to which the Seller is a party or by which it is bound; (b) contravene or conflict with or constitute a violation of any provision of any law, regulation, judgment, injunction, order or decree binding upon or applicable to the Seller or its Subsidiaries; (c) constitute a default (or would constitute a default with notice or lapse of time or both) under or give rise to a right of termination, cancellation or acceleration or loss of any benefit under any material agreement, contract or other instrument binding upon the Seller or its Subsidiaries or under any material license, franchise, permit or other similar authorization held by the Seller or its Subsidiaries; or (d) result in the creation or imposition of any Lien (as defined below) on any asset of the Seller or its Subsidiaries. For purposes of this Agreement, the term "Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest, claim or encumbrance of any kind in respect of such asset.

3.6 SEC Documents. The Seller is obligated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") to file reports pursuant to Sections 13 or 15(d) thereof (all such reports filed or required to be filed by the Seller, including all exhibits thereto or incorporated therein by reference, and all documents filed by the Seller under the Securities Act hereinafter called the "SEC Documents"). The Seller has filed all reports or other documents required to be filed under the Exchange Act. All SEC Documents filed by the Seller as of or for any period beginning on or after July 1, 2003, (i) were prepared in all material respects in accordance with the requirements of the Exchange Act and (ii) did not at the time they were filed (or, if amended or superseded by a filing prior to the date hereof, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Seller has previously delivered to the Purchaser a correct and complete copy of each report (including, without limitation, the most recent Proxy Statement) which the Seller filed with the Securities and Exchange Commission (the "SEC" or the "Commission") under the Exchange Act for any period ending on or after June 30, 2005 (the "Recent Reports") to the extent not available via EDGAR. None of the information about the Seller or any of its Subsidiaries which has been disclosed to the Purchasers herein or in the course of discussions and negotiations with respect hereto which is not disclosed in the Recent Reports is or was required to be so disclosed, and no material non-public information has been disclosed to the Purchasers. To the extent that the Seller fails to so publicly disclose any such material non-public information prior to such date, any Purchaser in possession of such information shall be permitted to publicly disclose such material non-public information. The Seller agrees that it shall not furnish any Purchaser any material non-public information concerning the Seller which it does not intend to disclose on or prior to such date.

3.7 Financial Statements. The financial statements of the Seller included in the SEC Documents comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Seller and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments. All material agreements to which the Seller and its Subsidiaries are a party or to which any of their respective property or assets are subject that are required to be filed as Exhibits to the SEC Documents under Item 601 of Regulation S K are included as a part of, or specifically identified in, the SEC Documents.

3.8 Compliance with Law. The Seller and its Subsidiaries are in compliance and have conducted their business so as to comply with all laws, rules and regulations, judgments, decrees or orders of any court, administrative agency, commission, regulatory authority or other governmental authority or instrumentality, domestic or foreign, applicable to their operations, the violation of which would cause a Material Adverse Affect. There are no judgments or orders, injunctions, decrees, stipulations or awards (whether rendered by a court or administrative agency or by arbitration), including any such actions relating to affirmative action claims or claims of discrimination, against the Seller or its Subsidiaries or against any of their properties or businesses.

3.9 No Defaults. The Seller and its Subsidiaries are not, nor have they received notice that they would be with the passage of time, giving of notice, or both, (i) in violation of any provision of their Articles and Bylaws (ii) in default or violation of any term, condition or provision of (A) any judgment, decree, order, injunction or stipulation applicable to the Seller or its Subsidiaries or (B) any agreement, note, mortgage, indenture, contract, lease or instrument, permit, concession, franchise or license to which the Seller or its Subsidiaries are a party or by which the Seller or its Subsidiaries or their properties or assets may be bound, and no circumstances exist which would entitle any party to any agreement, note, mortgage, indenture, contract, lease or instrument to which such Seller or its Subsidiaries are a party, to terminate such as a result of such Seller or its Subsidiaries, having failed to meet any provision thereof including, but not limited to, meeting any applicable milestone under any agreement or contract.

3.10 Litigation. Except as disclosed in the Recent Reports or on Schedule 3.10, there is no action, suit, proceeding, judgment, claim or investigation pending or, to the best knowledge of the Seller, threatened against the Seller and its Subsidiaries which could, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Seller or its Subsidiaries or which in any manner challenges or seeks to prevent, enjoin, alter or materially delay any of the transactions contemplated hereby, and Seller is not aware of any basis for the assertion of any of the foregoing.

There are no claims or complaints existing or, to the knowledge of the Seller or its Subsidiaries, threatened for product liability in respect of any product of the Seller or its Subsidiaries, and the Seller and its Subsidiaries are not aware of any basis for the assertion of any such claim.

3.11 Absence of Certain Changes. Since June 30, 2005, the Seller has conducted its business only in the ordinary course and there has not occurred, except as set forth in the Recent Reports or any exhibit thereto or incorporated by reference therein: