

NETSOL TECHNOLOGIES INC
Form S-3
October 24, 2011

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

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NetSol Technologies, Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

95-4627685
(I.R.S. Employer
Identification No.)

23901 Calabasas Road, Suite 2072
Calabasas, CA 91302
Phone: (818) 222-9195

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Najeeb Ghauri, Chief Executive Officer
23901 Calabasas Road, Suite 2072
Calabasas, CA 91302
Phone: (818) 222-9195

(Name, address, including zip code, and telephone number, including area code, of agent for service)

with copies to:

Oswald & Yap LLP
16148 Sand Canyon Avenue
Irvine, CA 92618
Attn: Lynne Bolduc, Esq.

Approximate date of commencement of proposed sale to the public:
From time to time after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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.

Large accelerated filer Accelerated filer
 Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price per Unit (2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (3)
PRIMARY OFFERING:				
Common Stock, \$0.001 par value per share	(4)	(4)	(4)	N/A
Preferred Stock	(4)	(4)	(4)	N/A
Debt Securities	(4)	(4)	(4)	N/A
Warrants	(4)	(4)	(4)	N/A
Total for sale by Registrant	(4)	(4)	\$40,000,000	\$ 4,584
SECONDARY OFFERING:				
Common Stock, \$0.001 par value per share, issuable upon conversion of and in lieu of cash interest payments on 8.25% Convertible Notes (5)	5,363,129	\$ 0.62 (6)	\$ 3,325,140	\$ 382
Common Stock, \$0.001 par value, issuable upon exercise of warrants (7)	1,408,451	\$ 0.62 (6)	\$ 873,240	\$ 100

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Total for sale by selling stockholders	6,771,580	\$ 0.62 (6)	\$ 4,198,380	\$ 482
Total			\$44,333,812	\$ 5,080

- (1) This Registration Statement covers common stock, preferred stock, debt securities, and warrants to purchase common stock, preferred stock, or debt securities. Any securities registered hereunder may be sold separately or as units with other securities registered hereunder. The securities registered also include such indeterminate amounts and numbers of shares of common stock and numbers of shares of preferred stock, and principal amounts of debt securities, as may be issued upon conversion of or exchange for preferred stock or debt securities that provide for conversion or exchange, upon exercise of warrants or pursuant to the antidilution provisions of any such securities. In addition, pursuant to Rule 416 under the Securities Act of 1933, as amended, the shares being registered hereunder include such indeterminate number of shares of Common Stock and Preferred Stock as may be issuable with respect to shares being registered hereunder as a result of stock splits, stock dividends or similar transactions.
- (2) The proposed maximum offering price with respect to shares for sale by the registrant will be determined from time to time by the registrant in connection with the issuance by the registrant of the securities registered hereunder.
- (3) Calculated pursuant to Rule 457(o) based on an estimate of the proposed maximum aggregate offering price.
- (4) An indeterminate number of the securities is being registered as may at various times be issued at indeterminate prices, with an aggregate public offering price not to exceed \$40,000,000 or the equivalent thereof in one or more currencies or, if any debt securities are issued at any original issuance discount, such greater principal amount as shall result in an aggregate initial offering price of \$40,000,000.
- (5) 4,469,274 of the shares are currently issuable upon conversion of the Convertible Notes (as defined below), and 893,855 of the shares represent an additional number of shares which the Registrant may, at its option and subject to certain conditions, issue in lieu of cash interest payments under the Convertible Notes and/or to account for changes to the conversion value or changes to the exercise price of the Convertible Notes and warrants.
- (6) Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on a per share price of \$0.62, the average of the high and low reported sale prices of the Registrant's common stock on NASDAQ Capital Market on October 19, 2011.
- (7) 1,408,451 of the shares are issuable upon exercise of warrants by the selling stockholders.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 21, 2011

PROSPECTUS

\$40,000,000

Common Stock
Preferred Stock
Debt Securities
Warrants

6,771,580 Shares of Common Stock Offered by the Selling Stockholders

We may offer and sell from time to time, up to \$40,000,000 in one or more series: common stock, par value \$0.001 per share, preferred stock, debt securities and warrants. Debt securities may consist of debentures, notes, or other types of debt and may be convertible, exercisable, or exchangeable for our common stock. We will determine, when we sell securities, the amounts and types of securities we will sell and the prices and other terms on which we will sell them.

In addition, the selling stockholders listed on page 33 of this prospectus may, from time to time, use this prospectus to sell in one or more offerings an aggregate of up to 6,771,580 shares of our common stock, referred to as “offered shares,” in the amount and at the time determined solely by the selling stockholders. All of the offered shares are issuable, or may in the future become issuable, with respect to securities issued in connection with a September 13, 2011 dated private placement of 8.25% Convertible Notes convertible notes with a principal value of \$4,000,000 (the “Convertible Notes”) and warrants to acquire up to 1,480,451 shares of common stock (the “Warrants”) (the “Financing”). The shares of common stock being offered for resale by the selling stockholders pursuant to this prospectus include: shares of common stock which may be issued to selling stockholders as a result of conversion of the Convertible Notes; shares of common stock which may be issued in payment of interest on the Convertible Notes; shares of common stock issuable upon the exercise of the Warrants; and additional shares of common stock that may be issued to the selling stockholders as a result of conversion or exercise price anti-dilution adjustments applicable to the Convertible Notes and/or the Warrants. We will not receive any of the proceeds from the sale of our common stock by the selling stockholders.

We and/or the selling stockholders may sell securities on a continuous or delayed basis, to or through underwriters, dealers, or agents or directly to purchasers. If any agents or underwriters are involved in the sale of any of these securities, the applicable prospectus supplement will provide their names and any applicable fees, commissions or discounts. See “Plan of Distribution.”

Each time we or any selling stockholders offer to sell securities pursuant to this prospectus, we will provide a prospectus supplement and attach it to this prospectus. The prospectus supplements will contain more specific information about the offering and the securities being offered. The prospectus supplements may also add, update, or change information.

We encourage you to carefully review and consider this prospectus and any prospectus supplement before investing in our securities. We also encourage you to read the documents to which we have referred you in the “Where You Can Find More Information” section of this prospectus for information on us and for our financial statements. This prospectus may not be used to consummate sales of our securities by us unless accompanied by a prospectus supplement.

Our common stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and is listed on The NASDAQ Capital Market under the symbol “NTWK.” On October 19, 2011, the last reported sale price of our common stock on The NASDAQ Capital Market was \$0.61 per share. You are urged to obtain current market quotations for our common stock. As of October 19, 2011 the aggregate market value of our outstanding common stock held by non-affiliates was \$26,971,159 based on 56,703,855 shares of outstanding common stock, of which 44,215,015 shares are held by non-affiliates, and a per share price of \$0.61 based on the closing sale price of our common stock as quoted on the NASDAQ Capital Market on October 19, 2011. As of the date hereof, we have not sold any securities pursuant to General Instruction I.B.6 of Form S-3 during the prior 12 calendar month period that ends on and includes the date hereof.

Investing in our securities involves risks. Please carefully review the information under the heading “Risk Factors” on page 7 of this prospectus and in the applicable prospectus supplement before investing in any securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is October 21, 2011

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document. However, in the event of a material change, this prospectus will be amended or supplemented accordingly.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission utilizing a “shelf” registration process. Under this shelf registration process, we may from time to time offer and sell any combination of the securities described in this prospectus in one or more offerings for total gross proceeds of up to \$40,000,000.

In addition, under this shelf registration process, the selling stockholders named in any prospectus supplement may offer and sell, from time to time, up to 6,771,580 shares of our common stock. The shares of common stock being offered for resale by the selling stockholders include: shares of common stock issuable upon conversion of the Convertible Notes (as defined below under “Our Business—The Financing”), shares of common stock issuable as interest payments on the Convertible Notes; shares of common stock issuable upon the exercise of the Warrants (as defined below under “Our Business—The Financing”); and, additional shares of common stock that may be issued to the selling stockholders as a result of conversion or exercise price anti-dilution adjustments applicable to the Convertible Notes and/or the Warrants. We will not receive any proceeds from sales of our common stock by the selling stockholders. For further information about the selling stockholders, see “Selling Stockholders.”

This prospectus provides you with a general description of the securities we or the selling stockholders may offer hereunder. Each time we or the selling stockholders sell securities hereunder, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update, or change information contained in this prospectus. You should read this prospectus, the related exhibits filed with the Securities and Exchange Commission and any prospectus supplement together with additional information described below under the headings “Where You Learn More About Us” and “Incorporation of Certain Documents by Reference.”

We have not authorized any person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any related supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or any related prospectus supplement. This prospectus and any related supplement to this prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus or any related supplement to this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

You should not assume that the information contained in this prospectus and any related prospectus supplement is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus and any related prospectus supplement is delivered or securities are sold on a later date.

THIS PROSPECTUS MAY NOT BE USED TO SELL ANY SECURITIES UNLESS ACCOMPANIED BY A PROSPECTUS SUPPLEMENT.

WHERE TO LEARN MORE ABOUT US

We have filed with the Securities and Exchange Commission a registration statement on Form S-3 under the Securities Act with respect to the securities being offered under this prospectus. This prospectus, which forms part of the registration statement, does not contain all of the information in the registration statement. We have omitted certain parts of the registration statement, as permitted by the rules and regulations of the Securities and Exchange Commission. For further information regarding us and our securities, please see the registration statement and our other filings with the Securities and Exchange Commission, including our annual, quarterly, and current reports and any proxy statements, which you may read and copy at the Public Reference Room maintained by the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. Our public filings with the Securities and Exchange Commission are also available to the public on the Securities and Exchange Commission's Internet website at www.sec.gov. Our Internet website address is www.netsoltech.com. Information on our website is not incorporated into this prospectus or our other securities filings and is not a part of this prospectus.

We furnish holders of our common stock with annual reports containing audited financial statements prepared in accordance with accounting principles generally accepted in the United States following the end of each fiscal year. We file reports and other information with the Securities and Exchange Commission pursuant to the reporting requirements of the Exchange Act.

Descriptions in this prospectus of documents are intended to be summaries of the material, relevant portions of those documents, but may not be complete descriptions of those documents. For complete copies of those documents, please refer to the exhibits to the registration statement and other documents filed by us with the Securities and Exchange Commission.

OUR BUSINESS

This is only a summary and does not contain all of the information that you should consider before investing in our securities. You should read the entire prospectus carefully, including the "Risk Factors" section as well as the information incorporated by reference into this prospectus under "Where To Learn More About Us."

Overview

NetSol Technologies, Inc. ("we," "us," or "our") (NASDAQCM: NTWK) (NASDAQDubai: NTWK) is a worldwide provider of IT and enterprise application solutions. We execute our mission by focusing technology on the operational needs of our clients. Our services and solutions enable businesses to streamline their operations and compete more effectively.

We are organized into two main revenue areas, consisting of (i) enterprise solutions – NetSol Financial Suite ("NFSTM") – for the global financing, leasing and lending industry; and (ii) a portfolio of managed services, including customized application development, systems integration, and business process engineering. In addition, our solutions portfolio includes the smartOCITM e-Procurement search engine for SAP AG's ("SAP") Supplier Relationship Management ("SAP SRM") users.

Our 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 our delivery locations across the globe.

Founded in 1997, we are headquartered in Calabasas, California. While we follow a global strategy for sales and delivery of our portfolio of solutions and services, we continue to maintain regional offices in the San Francisco Bay Area and the corporate headquarters in Calabasas, for North America; the London Metropolitan area for Europe; and Bangkok, Thailand and Lahore, Pakistan for Asia Pacific. We continue to maintain services, product, and/or sales specific offices in Australia, China, Thailand, the Kingdom of Saudi Arabia, and Pakistan and, in any other country, on an as needed basis.

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 "Make or Buy" decision processes when contemplating how to support and staff new development, testing, services support and delivery activities. Our business offerings are aligned as a "BestShoring delivers BestSolution®" solutions strategy. BestShoring delivers BestSolution® refers to our ability to draw upon our global resource base and construct the best possible solution and price for each customer. Unlike traditional outsourcing offshore vendors, we draw upon an international workforce and delivery capability to ensure a BestShoring delivers BestSolution® approach.

We combine domain expertise, not only with lowest cost blended rates from our design centers and campuses located around the world, but also with the guarantee of localized program and project management while minimizing implementation risk associated with a single service center. Our BestShoring delivers BestSolution® approach, which we consider a unique and cost effective global development model, is leading the way, providing value added solutions through our portfolio of IT-based global business services ("GBS"), which uses collaboration rather than the traditional outsourced vendor framework. Our focus on solutions serves to ensure the most favorable pricing while delivering in-depth domain experience. Our international locations and reach provide our 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. Our expert consultants have the technical knowledge and business experience to ensure the optimization of the development process in alignment with basic business principles. We offer 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 our customers' strategic objectives.

Our service offerings include:

- IT Consulting & Services;
- NetSol Defense Division;
- 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™”), a robust suite of five software applications that 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 eight years of effort resulting in over 60 modules grouped in five comprehensive applications. These five applications are complete systems in themselves and can be used independently to exhaustively address specific sub-domains of the leasing/financing cycle. When used together, they fully automate the entire leasing/financing cycle.

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 product 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.

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 Land Record Management Information System (“LRMIS”) or Motor Transport Management Information System (“MTMIS”);
- Business intelligence; and
- Information security services.

To further bolster our solutions capabilities, in October 2008, we acquired Ciena Solutions, a preferred SAP and Business Objects systems integration firm. The Ciena Solutions practice will be integrated into our newly-formed, wholly-owned subsidiary, Vrooz, Inc. This acquisition expanded our domain and subject matter expertise to include integration and consulting services for the SAP Enterprise Resource Planning (“SAP ERP”) platform as well as intellectual property targeted for the business to business (“B2B”) supply chain market.

Vroozi 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 B2B 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's first product to market is smartOCI™. smartOCI™ is a new search engine technology and buy-side content marketplace which provides corporate buyers and shoppers a simple and intuitive user interface to search multiple supplier catalogs simultaneously within the SAP procurement application. smartOCI™ was officially released to the market in May 2011 at the SAP SAPPHERE Conference in Orlando, Florida, targeting over 14,000 SAP customers, and has strengthened our presence in the global SAP services market.

While we follow a global strategy for sales and delivery of our portfolio of solutions and services, we continue to focus operational responsibility along two regions, the Americas and Europe Region and the Asia Pacific Region covering, specifically, the markets of Australia, China, Pakistan, Saudi Arabia and Thailand. We continue to maintain services or products and specific sales offices in our current locations and will add offices on an as-needed basis.

For a more detailed discussion of our proprietary products and services, please refer to our Form 10-K for the fiscal year ended June 30, 2011, filed with the Securities and Exchange Commission on September 16, 2011.

Our Information

We are a Nevada corporation. Our principal offices are located at 23901 Calabasas Road, Suite 2072, Calabasas, California 91302. The telephone number of our principal offices is 818-222-9195. Our website is www.netsoltech.com. The information contained on our website is not incorporated by reference and should not be considered a part of this prospectus.

The Financing

In the Financing, we entered into an agreement with two accredited investors whereby we issued the Convertible Notes and the Warrants. The Convertible Notes bear interest at the rate of 8.25% per annum and are due in full two years from the issuance date or September 13, 2013. In connection with the Financing, we entered into the following documents: A Convertible Note and Warrant Purchase Agreement (the "SPA"); the Convertible Notes; the Warrants; and an Investor Rights Agreement (the "IRA").

The proceeds of the Financing were used by us to: (i) pay an outstanding note in the amount of \$2,758,330 in full along with interest of \$348,929 accrued till September 13, 2011; and (ii) provide 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 30% of the aggregate principal value of the Convertible Notes divided by the conversion value (currently \$0.895 per share). Based on an aggregate principal value of \$4,000,000, the investors were entitled to Warrants to acquire up to 1,408,451 shares of common stock at an exercise price per warrant of \$0.895. The Warrants were permitted to be exercised at any time, to the extent that such conversion did not violate NASDAQ Marketplace rules.

The Convertible Notes are convertible into shares of common stock at such time and at such value as is set forth in the Convertible Notes. The initial conversion value shall be \$0.895. The conversion value is subject to adjustment as set forth in the Convertible Notes. The holders of the Convertible Notes are entitled to interest payments at the rate of 8.25% per annum from the date of issuance until paid in full. The dividends may be paid, at our option, in cash or in shares of common stock in arrears on the first business day of each calendar quarter of each year. Anti-dilution protection is afforded to the holders by providing for an adjustment of the conversion price in certain circumstances. The conversion price is adjusted for dividends, subdivisions, combinations, distributions and issuances of shares, or securities convertible into shares, of our common stock issued at an effective per share selling price which is the less than the greater of the fair market price or the conversion value as of the issuance date. Conversion of the Convertible Notes, as well as issuance of shares as interest, and exercise of the Warrants is subject to a beneficial ownership cap of 9.9% of the total number of shares of our common stock then issued and outstanding and by NASDAQ Marketplace rules.

RISK FACTORS

You should consider carefully the risk factors described below, and all other information contained in or incorporated by reference in this prospectus, before deciding to invest in our common stock and/or warrants. If any of the following risks actually occur, they may materially harm our business, financial condition, operating results or cash flow. As a result, the market price of our common stock could decline, and you could lose all or part of your investment. Additional risks and uncertainties that are not yet identified or that we think are immaterial may also materially harm our business, operating results or financial condition and could result in a complete loss of your investment.

We have received a notice of failure to comply with the minimum bid price required by nasdaq listing rules. while we have 180 calendar days from the date of the notice to regain compliance, there is no guarantee that we will be able to regain compliance within the time frame, that should we fail to regain compliance during the initial grace period that we will be able to meet the criteria for a further grace period or that even if we regain compliance that we shall be able to continue to meet the minimum bid price requirements.

On September 2, 2011, we received a notice from NASDAQ of failure to comply with a continued listing rule, specifically the minimum bid price of NASDAQ Listing Rule 5550(a)(2). We have a grace period of 180 calendar days in which to regain compliance and there is no guarantee that this will happen. Should we fail to regain compliance during the initial grace period, there is no guarantee that we will meet the criteria for a further grace period. Failure to regain compliance could result in delisting of our common stock from NASDAQ.

The liquidity of our common stock will be adversely affected if our common stock is delisted from the NASDAQ Capital Market.

Our common stock is traded on The NASDAQ Capital Market. To maintain inclusion on The NASDAQ Capital Market, we must continually meet the following six listing requirements:

1. Net tangible assets of at least \$2,500,000 or market capitalization of at least \$35,000,000 or net income of at least \$500,000 in either our latest fiscal year or in two of our last three fiscal years;
2. Public float of at least 500,000 shares;
3. Market value of our public float of at least \$1,000,000;
4. A minimum closing bid price of \$1.00 per share of common stock, without falling below this minimum bid price for a period of thirty consecutive trading days;
5. At least two market makers; and
6. At least 300 stockholders, each holding at least 100 shares of common stock.

We currently meet all NASDAQ listing requirements except for maintaining a minimum bid price of \$1.00 per share of common stock, as discussed above in “Risk Factors—We Have Received a Notice of Failure to Comply with the Minimum Bid Price Required by NASDAQ Listing Rules....”

If our common stock is ever delisted, we would apply to have our common stock quoted on the over-the-counter electronic bulletin board. Upon any such delisting, our common stock would become subject to the regulations of the Securities and Exchange Commission relating to the market for penny stocks. A penny stock, as defined by the Penny Stock Reform Act, is any equity security not traded on a national securities exchange that has a market price of less than \$5.00 per share. The penny stock regulations generally require that a disclosure schedule explaining the penny stock market and the risks associated therewith be delivered to purchasers of penny stocks and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. The broker-dealer must make a suitability determination for each purchaser and receive the purchaser's written agreement prior to the sale. In addition, the broker-dealer must make certain mandated disclosures, including the actual sale or purchase price and actual bid offer quotations, as well as the compensation to be received by the broker-dealer and certain associated persons. The regulations applicable to penny stocks may severely affect the market liquidity for our common stock and could limit your ability to sell your securities in the secondary market.

management has determined that there is a weakness in our internal controls over financial reporting in that those individuals responsible for preparing our financial statements do not have sufficient technical accounting knowledge relating to accounting for complex us gaap matters, the continued existence of which may have a detrimental impact on our stock price.

In performing our assessment of the effectiveness of our internal controls over financial reporting as of June 30, 2011, we have determined that as of June 30, 2011, there was a material weakness in our internal control over financial reporting. Specifically, while in the performance of this assessment, our management identified that our accounting staff do not have sufficient technical accounting knowledge relating to accounting for complex U.S. GAAP matters. In particular, although our CFO is a Chartered Accountant ("CA") in Pakistan neither he, nor our controllers, hold a Certified Public Accounting ("CPA") license in the United States. While the CA certification is recognized in several key countries relative to our operations, including Pakistan, the United Kingdom, and other British Commonwealth countries, we have determined that a deficiency exists with respect to required financial reporting expertise in the United States. Based on this evaluation, management concluded that our internal control over financial reporting was not effective as of June 30, 2011.

Management is committed to remediating the material weakness as quickly as possible and we will continue to encourage our current accounting staff to both further their continuing education and to sit for the CPA exam in the United States. Additionally, and in recognition of immediate financial reporting needs, we intend to implement additional controls and procedures during the current fiscal year to continue to ensure timely and accurate financial reporting objectives. Such additional controls and procedures may include: The retention of a U.S. based CPA as Chief Financial Officer with U.S. GAAP experience and appropriate knowledge of internal controls over financial reporting, for purposes of appropriate oversight of the financial reporting process and continued training of the accounting staff; recruitment of additional personnel with relevant U.S. GAAP experience to enhance our financial reporting and internal control function; and retention of the services of a consultant for advisory services with respect to SOX 404 compliance. Until such time as our accounting staff possesses such knowledge, we must continue to determine that our internal controls over financial reporting have a material weakness.

Geopolitical unrest in the middle east and in the pakistan region may negatively affect the perception of us and our ability to perform.

Our largest subsidiary is located in Lahore, Pakistan. This subsidiary has over 700 employees and is the largest center of product research and development and service delivery. While we have alternative centers of development and delivery outside the region, and are accelerating the growth of other delivery centers such as Thailand, geopolitical unrest due to extremism in the regions of Pakistan and Afghanistan may cause customers to question our ability to deliver goods and services. While we believe our Lahore facility is sufficiently protected through security and infrastructure provisions from terrorist attacks, a terrorist attack on our facility could disrupt delivery options to customers who receive delivery from Pakistan. Additionally, investors may believe that we are predominantly reliant on our Pakistani operations for delivery and performance and thus, believe that investment in us is more risky than investment in companies with operations solely outside of Pakistan.

Both the recovery from the recent economic recession and recovery from recent natural disasters may affect our customers' purchasing and payment decisions, negatively affecting our pipeline and accounts receivables.

A number of our customers are auto manufacturers with corporate headquarters in Japan. The Japanese earthquake and tsunami has delayed some customers' decisions to upgrade or increase implementations of our projects. This, coupled with the sluggish economic recovery in North America and Europe, may slow new orders. A slowdown in new orders could result in less revenue. Further, economic pressures have caused some customers to slow payment of outstanding invoices. Should this slower payment cycle continue, our accounts receivables may increase and we could, potentially, be required to make provisions for bad debts.

Insiders have substantial control over us, and issuance of shares of common stock pursuant to our incentive plan will dilute your ownership and voting rights and allow insiders to control us.

Our executive officers and directors own, in the aggregate, approximately 22% of our outstanding shares as the date of this prospectus. Our officers and directors' ownership percentage will increase as a result of any shares issued under our stock incentive plans, under which 8,014,323 shares are reserved for issuance under outstanding option and restricted stock award grants and are available for issuance. If all these shares are issued to our executive officers and directors, they will own, in the aggregate, approximately 34% of our outstanding shares. As a result, these stockholders, acting together, may have the ability to delay or prevent a change in control that may be favored by other stockholders and otherwise exercise significant influence over all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including:

- the appointment of directors;
- the appointment, change or termination of management;
- any amendment of our articles of incorporation or bylaws;
- the approval of acquisitions or mergers and other significant corporate transactions, including a sale of substantially all of our assets; or
 - the defeat of any non-negotiated takeover attempt that might otherwise benefit the public stockholders.

Some of our directors and officers are outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or any of our directors or officers.

Some of our directors and officers are nationals and residents of countries other than the United States, and all or a substantial portion of those persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on some or all of our directors or officers, or enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal securities laws against us or them.

The sale of substantial shares of our common stock may depress our stock price.

As of the date of this prospectus, there were 56,703,855 shares of our common stock outstanding. Substantially all of these shares are eligible for trading in the public market. The market price of our common stock may decline if our common stockholders sell a large number of shares of our common stock in the public market, or the market perceives that such sales may occur.

As of the date of this prospectus, we could also issue up to 9,980,998 additional shares of our common stock that are reserved for future issuance under our stock equity plans, and for outstanding warrants, as further described in the following table:

	Number of Shares Reserved
Common shares reserved for issuance under equity plans	8,319,317
Common shares issuable upon exercise of outstanding warrants	1,561,681
Total shares of common stock reserved for issuance	9,980,998

We will need, but may not be able to obtain, additional financing.

We will need to raise substantial additional capital in the future to fund our operations. We may not be able to obtain such financing on acceptable terms, or at all, which would force us to revise our business plan. The process of obtaining financing is affected by a number of factors, many of which are beyond our control, such as conditions in the securities and finance markets generally, prevailing interest rates, and economic conditions at that time. We may seek to obtain additional funds through equity, debt or other financings.

If we issue equity securities, it:

- may significantly reduce the market price of our securities;
- may result in significant dilution to our stockholders; and
- may subordinate the rights of our stockholders if we issue securities with rights senior to those afforded to our stockholders.

Similarly, if we issue debt securities, it could result in:

- default and foreclosure on our assets if cannot repay our debt obligations;
- acceleration of our obligations to repay the indebtedness even if we make all principal and interest payments when due if we breach certain covenants that require the maintenance of certain financial ratios or reserves without a waiver or renegotiation of that covenant;
- our immediate payment of all principal and accrued interest, if any, if the debt security is payable on demand; and
- our inability to obtain necessary additional financing if the debt security contains covenants restricting our ability to obtain such financing while the debt security is outstanding.

Current economic conditions and capital markets are in a period of disruption and instability which could adversely affect our ability to access the capital markets, and thus adversely affect our business and liquidity.

The current economic conditions and financial crisis have had, and will continue to have, a negative impact on our ability to access the capital markets, and thus have a negative impact on our business and liquidity. The shortage of liquidity and credit combined with the substantial losses in worldwide equity markets could lead to an extended worldwide recession. We may face significant challenges if conditions in the capital markets do not improve. Even if we are able to raise capital, it may not be at a price or on terms that are favorable to us. We cannot predict the occurrence of future disruptions or how long the current conditions may continue.

Our highly volatile stock price and trading volume may adversely affect the liquidity of our common stock.

The market price of our common stock has generally been highly volatile and is likely to continue to be highly volatile. The market price of our common stock may be significantly impacted by many factors, including, but not limited to:

- announcements of technological innovations or new commercial products by us or our competitors;
- our financial results or that of our competitors;

- the offering and sale of shares of our common stock at a discount under an equity transaction;
 - changes in our capital structure;
 - published reports by securities analysts;
- announcements of licensing agreements, joint ventures, strategic alliances, and any other transaction that involves the sale or use of our technologies or competitive technologies;
 - disputes concerning our patent or proprietary rights;
 - regulatory developments and product safety concerns;
- general stock trends in the lease and finance software market or in the cloud technology market;
 - public concerns as to the security of our Pakistan operations; and
- economic trends and other external factors, including but not limited to interest rate fluctuations, economic recession, inflation, foreign market trends, national crisis, and disasters.

These and other external factors have caused and may continue to cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock, and may otherwise negatively affect the liquidity of our common stock.

If we fail to establish and maintain effective disclosure controls and procedures and internal control over financial reporting, we may have material misstatements in our financial statements and we may not be able to report our financial results in a timely manner. Additionally, failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and stock price.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX”), the Securities and Exchange Commission adopted rules requiring us, as a public company, to include a report of management on our internal controls over financial reporting in our annual report on Form 10-K and quarterly reports on Form 10-Q that contains an assessment by management of the effectiveness of our internal controls over financial reporting. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented, or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with SOX Section 404. Failure to maintain an effective internal control environment could have a material adverse effect on our stock price. In addition, there can be no assurance that we will be able to remediate material weaknesses, if any, which may be identified in future periods.

Successful development of our products is uncertain. To date, no significant revenues have been generated from the commercial sale of our newest products and our products may not generate revenues in the future.

Our development of new versions of our existing software and the development of our cloud computing offerings are subject to the risks of failure inherent in the development of products based on new technologies. These risks include:

- delays in product development, beta testing or implementation;
- unplanned expenditures in product development;
- significant defects or errors in initial implementations;
- emergence of superior or equivalent products;
- inability to market products due to third party proprietary rights; and
- failure to achieve market acceptance.

Because of these risks, our research and development efforts or those of our partners may not result in any commercially viable products. If significant portions of these development efforts are not successfully completed, required regulatory approvals are not obtained, or any approved products are not commercially successful, our business, financial condition, and results of operations may be materially harmed.

If we successfully develop products and services but those products and services do not achieve and maintain market acceptance, our business will not be profitable.

Even if we enter into agreements to provide our new generation lease and finance and our cloud computing offerings, or any future offering, the degree of market acceptance of any our profitability and growth will depend on a number of factors, including:

- our ability to provide acceptable evidence of error free use;
- relative convenience and ease of operation of the offerings;
- pricing and cost effectiveness; and
- effectiveness of our sales and marketing strategy.

In addition, even if our offerings achieve market acceptance, we may not be able to maintain that market acceptance over time if new products or technologies are introduced that are more favorably received than our products, are more cost effective or render our products obsolete.

If we are unable to obtain, protect, and enforce our patent rights, we may be unable to effectively protect or exploit our proprietary technology, inventions, and improvements.

Our success depends in part on our ability to obtain, protect, and enforce commercially valuable patents. We try to protect our proprietary positions by filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to developing our business. However, if we fail to obtain and maintain patent protection for our proprietary technology, inventions, and improvements, our competitors could develop and commercialize products that would otherwise infringe upon our patents.

Our patent position is generally uncertain and involves complex legal and factual questions. The risks and uncertainties that we face with respect to our patents include the following:

- the pending patent applications we have filed or to which we have exclusive rights may not result in issued patents or may take longer than we expect to result in issued patents;
 - the claims of any patents that issue may not provide meaningful protection;
 - we may be unable to develop additional proprietary technologies that are patentable;
 - the patents licensed or issued to us may not provide a competitive advantage;
 - other parties may challenge patents licensed or issued to us;
- disputes may arise regarding the invention and corresponding ownership rights in inventions and know-how resulting from the joint creation or use of intellectual property by us, our licensors, corporate partners and other scientific collaborators; and
 - other parties may design around our patented technologies.

We may become involved in lawsuits to protect or enforce our patents that would be expensive and time consuming.

In order to protect or enforce our patent rights, we may initiate patent litigation against third parties. In addition, we may become subject to interference or opposition proceedings conducted in patent and trademark offices to determine the priority and patentability of inventions. The defense of intellectual property rights, including patent rights through lawsuits, interference or opposition proceedings, and other legal and administrative proceedings, would be costly and divert our technical and management personnel from their normal responsibilities. An adverse determination of any litigation or defense proceedings could put our pending patent applications at risk of not being issued.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. For example, during the course of this kind of litigation, confidential information may be inadvertently disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. This disclosure could have a material adverse effect on our business and our financial results.

We may not be able to compete with our competitors in the Software Industry because many of them have greater resources.

The software industry is intensely competitive and subject to rapid and significant technological change. Many of our competitors are actively engaged in research and development of similar products. Some or all of these companies may have greater financial resources, larger technical staffs, and larger research and development budgets than we have. We expect to continue to experience significant and increasing levels of competition in the future. In addition, there may be other companies which are currently developing competitive technologies and products or which may in the future develop technologies and products that are comparable or superior to our technologies and products.

If we lose qualified management and technical personnel or are unable to attract and retain such personnel, we may be unable to successfully develop our products or we may be significantly delayed in developing our products.

Our success is dependent, in part, upon a limited number of key executive officers and developers, each of whom is an at-will employee. For example, because of his extensive understanding of our technologies and product development programs, the loss of Mr. Salim Ghauri, President of our subsidiary, NetSol Limited, would adversely affect our development efforts during the six to 12 month period that we estimate it would take to find and train a qualified replacement.

We also believe that our future success will depend largely upon our ability to attract and retain highly-skilled research and development and technical personnel. We face intense competition in our recruiting activities, including competition from larger companies with greater resources. We do not know if we will be successful in attracting or retaining skilled personnel. The loss of certain key employees or our inability to attract and retain other qualified employees could negatively affect our operations and financial performance.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents we incorporate by reference herein contain forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, which we refer to as the “Securities Act,” and 21E of the Exchange Act. Some of the statements under “Our Business,” “Risk Factors” and elsewhere in this prospectus constitute “forward-looking” statements. These statements involve known and unknown risks, including, among others, risks resulting from economic and market conditions, the regulatory environment in which we operate, pricing pressures, accurately forecasting operating and capital expenditures, competitive activities, uncertainties of litigation and other business conditions, and are subject to uncertainties and assumptions contained elsewhere in this prospectus. We base our forward-looking statements on information currently available to us, and, in accordance with the requirements of federal securities laws, we will disclose to you material developments affecting such statements. Our actual operating results and financial performance may prove to be very different from what we have predicted as of the date of this prospectus due to certain risks and uncertainties. The risks described above in the section entitled “Risk Factors” specifically address some of the factors that may affect our future operating results and financial performance.

USE OF PROCEEDS

Except as otherwise provided in the applicable prospectus supplement, we will use the net proceeds from the sale of the securities for general corporate purposes, which may include product development costs, marketing and sales, repayment of debt, expansion of our development capabilities and working capital.

The principal purposes of this offering are to increase our operating and financial flexibility. As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds we will have upon completion of this offering. Accordingly, our management will have broad discretion in the application of net proceeds, if any.

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders, but may receive proceeds from any cash payments made in connection with the exercise of the Warrants.

RATIOS OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges is computed by dividing fixed charges of us and our consolidated subsidiaries into earnings before income taxes, adjusting for minority interests, if any, in consolidated subsidiaries, discontinued operations, and cumulative effect of changes in accounting plus fixed charges and amortization of capitalized interest, less capitalized interest. Fixed charges include interest expense, which includes amortization of debt offering costs and capitalized interest.

The following table contains our consolidated ratios of earnings from continuing operations to fixed charges for the periods indicated. No shares of our preferred stock were outstanding during the years ended June 30, 2010 and 2011, and we did not pay preferred stock dividends during these periods. Consequently, the ratios of earnings to fixed charges and preferred stock dividends for these years are the same as the ratios of earnings to fixed charges. Earnings for the fiscal years ended June 30, 2007 and 2009 were inadequate to cover fixed charges by a deficiency of \$2,541,340 and \$6,472,419, respectively. Earnings for the fiscal years ended June 30, 2007 and 2009 were inadequate to cover fixed charges and preference dividends by a deficiency of \$2,781,666 and \$6,606,819, respectively.

	Year Ended June 30,				
	2011	2010	2009	2008	2007
Ratio of Earnings to Fixed Charges	9.55	4.91	--	17.20	--
Ratio of Earnings to Fixed Charges and Preference Dividends	9.55	4.91	--	13.39	--

If we intend to use the net proceeds from the sale of securities to repay debt or retire any of our securities, and the change in the ratio as a result would be ten percent or greater, we will include a ratio showing the application of the proceeds in the applicable prospectus supplement.

DESCRIPTION OF CAPITAL STOCK

General

The following summarizes the material provisions of our capital stock and important provisions of our articles of incorporation and bylaws. This summary is qualified in its entirety by our articles of incorporation and bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part, and by the provisions of applicable law.

As of the date of this prospectus, we are authorized to issue up to 100,000,000 shares of capital stock, of which 95,000,000 shares are \$.001 par value common stock and 5,000,000 are \$.001 par value preferred stock, of which 5,500 shares were designated as Series A Cumulative Convertible Preferred Stock (the "Series A"), all outstanding shares of which were redeemed in August 2009.

Common Stock

As of the date of this prospectus, there are 56,703,855 shares of common stock outstanding. Each share of common stock is entitled to one vote. There are no pre-emption rights. We have never declared or paid any dividends on our common stock or other securities and we do not intend to pay any cash dividends with respect to our common stock in the foreseeable future. For the foreseeable future, we intend to retain any earnings for use in the operation of our business and to fund future growth.

In the event of our voluntary or involuntary liquidation, dissolution, or winding up, the holders of our common stock will be entitled to share equally in our assets available for distribution after payment in full of all debts and after the holders of preferred stock, if any, have received their liquidation preferences in full.

No holders of shares of our common stock shall have any preemptive rights to subscribe for, purchase or receive any shares of any class, whether now or hereafter authorized, or any options or warrants to purchase any such shares, or any securities convertible into or exchanged for any such shares, which may at any time be issued, sold or offered for sale by us.

Preferred Stock

As of the date of this prospectus, no shares of preferred stock issued and outstanding. Any preferred stock we may offer may be issued in one or more series. The terms and rights of the preferred shares may be set by the board of directors at their discretion.

The specific terms of any series will be described in a prospectus supplement. Any series of preferred stock we issue will be governed by our articles of incorporation and by the certificate of designations relating to that series. We will file the certificate of designations with the Securities and Exchange Commission and incorporate it by reference as an exhibit to our registration statement at or before the time we issue any preferred stock of that series.

The applicable prospectus supplement will discuss the following features of the series of preferred stock to which it relates:

- the number of shares to be included in the series;
- the annual dividend rate and dates of payment for the series, if any, whether the dividends are cumulative, and any restrictions or conditions on the payment of dividends;
 - the redemption price, if any, and the terms and conditions of redemption;
 - any sinking fund provisions for the purchase or redemption of the series;
 - if the series is convertible, the terms and conditions of conversion;
- the amounts payable to holders upon our liquidation, dissolution or winding up; and
- any other rights, preferences, and limitations relating to the series, including voting rights.

Unless otherwise stated in the prospectus supplement, the preferred stock will have priority over our common stock with respect to dividends and distribution of assets, but will rank junior to all our outstanding indebtedness for borrowed money. Any series of preferred stock could rank senior, equal or junior to our other capital stock, as may be specified in a prospectus supplement, as long as our articles of incorporation so permit.

DESCRIPTION OF DEBT SECURITIES

The following summary describes the general terms that apply to the debt securities that may be issued under this prospectus. The particular terms of any debt securities will be described more specifically in the prospectus supplement relating to such debt securities.

General

The debt securities that we may issue will constitute our debentures, notes, bonds or other evidences of indebtedness, to be issued in one or more series, which may include senior debt securities, subordinated debt securities and senior subordinated debt securities. The particular terms of any series of debt securities we offer, including the extent to which the general terms set forth below may be applicable to a particular series, will be described in a prospectus supplement relating to such series.

Debt securities that we may issue may be issued under an indenture between us and a trustee qualified to act as such under the Trust Indenture Act of 1939. We have filed the form of the indenture as an exhibit to the registration statement of which this prospectus is a part. When we refer to the “indenture” in this prospectus, we are referring to the indenture under which your debt securities are issued as supplemented by any supplemental indenture applicable to your debt securities. We will provide the name of the trustee in any prospectus supplement related to the issuance of debt securities, and we will also provide certain other information related to the trustee, including describing any relationship we have with the trustee, in such prospectus supplement.

THE FOLLOWING DESCRIPTION IS A SUMMARY OF THE MATERIAL PROVISIONS OF THE INDENTURE. IT DOES NOT RESTATE THE INDENTURE IN ITS ENTIRETY. THE INDENTURE IS GOVERNED BY THE TRUST INDENTURE ACT OF 1939.