NETSOL TECHNOLOGIES INC
Form 10QSB
February 07, 2003

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

(X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2002

( ) For the transition period from __________to __________

Commission file number: 0-22773

NETSOL TECHNOLOGIES, INC.
(Previously NETSOL INTERNATIONAL, INC.)
(Exact name of small business issuer as specified in its charter)

NEVADA (State or other Jurisdiction of Incorporation or Organization)	95-4627685 (I.R.S. Employer Identification No.)

24011 Ventura Boulevard, Suite 101, Calabasas, CA 91302
(Address of principal executive offices) (Zip Code)

(818) 222-9195 / (818) 222-9197
(Issuer s telephone/facsimile numbers, including area code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (X) No ( )

The issuer had 22,661,909 shares of its $.001 par value Common Stock issued and outstanding as of December 31, 2002.

Transitional Small Business Disclosure Format (check one)

Yes ( ) No (X)

TABLE OF CONTENTS

Table of Contents

NETSOL TECHNOLOGIES, INC.

INDEX

Table of Contents

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET DECEMBER 31, 2002
(UNAUDITED)

ASSETS

Current assets:		
Cash and cash equivalents	$ 51,902	
Accounts receivable, net of allowance for doubtful amounts of $133,900	901,852	
Revenues in excess of billings	163,867	
Other current assets	161,162	
Total current assets		$1,278,783
Property and equipment, net of accumulated depreciation and amortization		2,218,003
Other assets		694,551
Intangibles:		
Product licenses, renewals, enhancements, copyrights, trademarks and tradenames, net	2,380,437	
Customer lists, net	1,096,336	
Goodwill, net	1,365,000	
Total intangibles		4,841,773
		$9,033,110

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Accounts payable and accrued expenses	$ 3,209,966	
Current maturities of obligations under capitalized leases	184,177	
Billings in excess of revenues	4,369	
Loan payable, bank	336,951	
Other current liabilities	49,752	
Total current liabilities		$3,785,215
Obligations under capitalized leases, less current maturities		15,582
Loan payable		136,461
Contingencies Note 9		
Stockholders equity:		
Common stock; $.001 par value, 25,000,000 shares authorized, 22,661,909 shares issued and outstanding	22,662	
Additional paid-in capital	32,314,807	
Stock subscriptions receivable	(43,650)	
Other comprehensive income	273,368	
Accumulated deficit	(27,471,335)	
Total stockholders equity		5,095,852
		$9,033,110

See accompanying notes to consolidated financial statements.

Table of Contents

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three month period ended December 31, 2002	Three month period ended December 31, 2001	Six month period ended December 31, 2002	Six month period ended December 31, 2001
Net revenues	$ 946,325	$ 856,940	$ 1,599,656	$ 1,986,770
Cost of revenues	292,665	820,275	622,700	1,727,746
Gross profit	653,660	36,665	976,956	259,024
Operating expenses:				
Selling and marketing	14,042	66,973	55,756	126,087
Depreciation and amortization	418,678	408,740	875,840	817,663
Settlement expenses				389,860
Bad debt expense	86,421		167,733	
Salaries and wages	235,278	371,215	493,778	780,854
Professional services, including non-cash compensation	42,284	159,355	243,766	631,368
General and administrative	337,589	316,137	751,973	613,244
Total operating expenses	1,134,292	1,322,420	2,588,846	3,359,076
Loss from operations	(480,632)	(1,285,755)	(1,611,890)	(3,100,052)
Other expense	(54,242)	(100,601)	(69,771)	(132,822)
Loss from continuing operations	(534,874)	(1,386,356)	(1,681,661)	(3,232,874)
Gain from discontinuation of a Subsidiary	478,075		478,075	
Net Loss	(56,799)	(1,386,356)	(1,203,586)	(3,232,874)
Other comprehensive loss:				
Translation adjustment	20,555	236,645	(256,907)	167,442
Comprehensive loss	(36,244)	$ (1,149,711)	$ (1,460,493)	$ (3,065,432)
Net loss per share basic and diluted:				
Continued operations	$ (0.02)	$ (0.10)	$ (0.08)	$ (0.24)
Discontinued operations	0.02		0.02	
Net Loss	$ (0.00)	$ (0.10)	$ (0.06)	$ (0.24)
Weighted average shares outstanding -				
Basic and diluted	21,559,114	14,521,850	20,485,203	13,335,746

See accompanying notes to consolidated financial statements

Table of Contents

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six-month periods ended December 31, 2002	Six-month periods ended December 31, 2001
Cash flows provided by (used in) operating activities:		
Net loss from continuing operations	$ (1,203,586)	$ (3,232,874)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	875,840	971,976
Non-cash compensation expense	352,859	748,513
Discontinued operations	(478,075)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	270,682	674,607
Other current assets	19,627	72,584
Other assets	(377,273)	73,667
Increase (decrease) in liabilities -		
Accounts payable and accrued expenses	(172,702)	126,160
Total adjustments	490,958	2,667,507
Net cash used in operating activities	(712,628)	(565,367)
Cash flows provided by (used in) investing activities:		
Purchase of property and equipment	(41,147)	(50,427)
Proceeds from disposal of investments certificates of deposit	614,334	32,031
Net cash provided by (used in) investing activities	573,187	(18,396)
Cash flows provided by (used in) financing activities:		
Issuance of common stock and warrants, net	173,635	419,050
Proceeds from loans	24,727	171,323
Principal payments on capital lease obligations	(93,933)	(73,682)
Net cash provided by financing activities	104,429	516,691
Net decrease in cash and cash equivalents	(35,012)	(67,072)
Cash and cash equivalents, beginning of year	86,914	306,125
Cash and cash equivalents, end of year	$ 51,902	$ 239,053

See accompanying notes to consolidated financial statements.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

	Six-month periods ended December 31, 2002	December 31, 2001
Supplemental disclosure of cash flow information:		
Interest paid	$ 30,000	$ 59,077
Income taxes paid	$	$ 3,597
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common shares for services received	$352,859	$358,653
Issuance of shares for Settlement	$	$389,860
Issuance of 200,000 shares of common stock applied against acquisition payable	$	$ 50,000

6

See accompanying notes to consolidated financial statements.

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The Company designs, develops, markets, and exports proprietary software products to customers in the automobile finance and leasing industry worldwide. The Company also provides consulting services in exchange for fees from customers.

The consolidated condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company s annual report on Form 10-KSB for the year ended June 30, 2002. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, NetSol Technologies (Pvt.) Ltd., NetSol (PVT), Limited, NetSol Connect (PVT), Ltd., NetSol Technologies UK Ltd (newly created subsidiary), NetSol Abraxas Australia Pty Ltd., NetSol eR, Inc., and NetSol USA, Inc. All material inter-company accounts have been eliminated in consolidation.

For comparative purposes, prior year s consolidated financial statements have been reclassified to conform with report classifications of the current year.

(2) COMPANY NAME CHANGE:

Effective February 8, 2002, the Company changed its name from NetSol International, Inc. to NetSol Technologies, Inc. The name change was approved by a majority of shareholders at the Company s annual shareholders meeting held on January 25, 2002.

(3) USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the

Table of Contents

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(4) NEW ACCOUNTING PRONOUNCEMENTS:

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in August 2001. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. Management is in the process of evaluating the requirements of SFAS No. 144 and does not expect that it will materially impact the Company s financial position or results of operations.

In May 2002, the Board issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145). SFAS 145 rescinds the automatic treatment of gains or losses from extinguishments of debt as extraordinary unless they meet the criteria for extraordinary items as outlined in APB Opinion No. 30, Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes various technical corrections to existing pronouncements. The provisions of SFAS 145 related to the rescission of FASB Statement 4 are effective for fiscal years beginning after May 15, 2002, with early adoption encouraged. All other provisions of SFAS 145 are effective for transactions occurring after May 15, 2002, with early adoption encouraged. The Company does not anticipate that adoption of SFAS 145 will have a material effect on its earnings or financial position.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue 94-3, a liability for an exit cost, as defined, was recognized at the date of an entity s commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002 with earlier application encouraged. The Company does not expect adoption of SFAS No. 146 to have a material impact, if any, on its financial position or results of operations.

In October 2002, the FASB issued SFAS No. 147, Acquisitions of Certain Financial Institutions. SFAS No. 147 removes the requirement in SFAS No. 72 and Interpretation 9 thereto, to recognize and amortize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. This statement requires that those transactions be accounted for in accordance with SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. In addition, this statement amends SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to include certain financial institution-related intangible assets. The Company does not expect adoption of SFAS No. 147 to have a material impact, if any, on its financial position, results of operations or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN45 is not expected to have a material effect on the Company s financial position, results of operations, or cash flows.

In December 2002, the FASB issued SFAS No. 148 Accounting for Stock Based Compensation-Transition and Disclosure . SFAS No. 148 amends SFAS No. 123, Accounting for Stock Based Compensation , to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used, on reported results. The Statement is effective for the Companies interim reporting period ending January 31, 2003. The Companies do not expect the adoption of SFAS No. 148 to have a material impact on its financial position or results of operations or cash flows.

(5) NET LOSS PER SHARE:

Net loss per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), Earnings per share . Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Weighted average number of shares used to compute basic and diluted loss per share is the same in this financial statement since the effect of dilutive securities is anti-dilutive.

Table of Contents

(6) FOREIGN CURRENCY:

The accounts of NetSol UK, Limited use the British Pounds, NetSol Technologies (Pvt.) Ltd., NetSol (Pvt.), Limited and NetSol Connect PVT, Ltd. use Pakistan Rupees and NetSol Abraxas Australia Pty, Ltd. uses the Australian dollar as the functional currencies. NetSol Technologies, Inc. and subsidiaries NetSol USA, Inc. and NetSol eR, Inc. use the U.S. dollars as the functional currencies. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Translation gain of $273,368 and $317,201 at December 31, 2002 and 2001, respectively, are classified as an item of other comprehensive income in the stockholders equity section of the consolidated balance sheet. During the six month period ended December 31, 2002 and 2001, comprehensive gain (loss) in the consolidated statements of operation included translation loss of $256,907 and gain of $167,442, respectively. During the three month period ended December 31, 2002 and 2001, comprehensive gain in the consolidated statements of operation included translation gains of $20,555 and $236,645, respectively

(7) INTANGIBLES ASSETS:

Intangible assets consist of product licenses, renewals, enhancements, copyrights, trademarks, trade names, customer lists and goodwill. The Company evaluates intangible assets, goodwill and other long-lived assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets and, goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. Potential impairment of goodwill after July 1, 2002 is being evaluated in accordance with SFAS No. 142. The SFAS No. 142 is applicable to the financial statements of the Company beginning July 1, 2002.

(8) LITIGATION:

The Company, in the determined event of default, may become potentially liable up to $400,000 with respect to some of its obligations under a registration rights agreement with Deephaven Capital Management.

A former attorney representing the Company, commenced a collection proceeding against the Company in the High Court of Justice, Queen s Bench Division, on July 31, 2002, claiming the Company owed a sum certain to it. The plaintiff claimed the Company owed 172,454.21 pounds sterling. This sum includes interest in the amount of 8% per annum. The Company commenced negotiations to settle the claims and is in the process of doing so. The Company has accrued the amount claimed in the accompanying consolidated financial statements.

On May 23, 2002, Allied Interstate, Inc. (Allied or Plaintiff) filed a complaint seeking damages from NetSol International, Inc. (NetSol or Defendant) for breach of contract; open book account; account stated and reasonable value in Superior Court of California, County of Los Angeles, West

District (Case No. SC072237). NetSol filed an answer on July 5, 2002 stating its affirmative defenses to the complaint. Plaintiff and Defendant commenced discovery. On September 30, 2002, NetSol filed three Motions to Compel Discovery, as no responses were sent by Allied. Allied later served Discovery responses were insufficient and not in substantial compliance with California Code of Civil Procedure. On December 5, 2002, a hearing was held whereby Defendant NetSol requested that the Court grant the following three motions: Motion to Compel Responses to Interrogatories and Imposing Monetary Sanctions; Motion to Compel Responses and Production of Documents and imposing Monetary Sanctions; Order that Matters be Deemed Admitted and For Imposition of Monetary Sanctions. Plaintiff did not file opposition or make an appearance at the December 5th hearing. The Court granted Defendant all three motions. On December 20, 2002, Defendant Allied filed a Motion for Reconsideration of granting the Order. On January 16, 2002, the Parties attended Court Ordered Mediation. The Parties were unable to resolve their differences. Plaintiff s Motion for Reconsideration (of the Court s Order regarding the three Motions to Compel granted in favor of the Defendant) is scheduled for February 11, 2003. A post mediation review hearing has been set by the Court for February 28, 2003. NetSol will continue to vigorously defend its position in this case. A trial date has not been set.

The Company is currently involved in proceedings with Adrian Cowler and The Surrey Design Partnership Limited, the former owners of Network Solutions Group Limited (NSGL). The disclosure stage of the proceedings was completed on 20th April 2001. The parties witness statements were served on 3rd August 2001. NetSol s expert report was due to be served on 21st September 2001; the Claimants expert report was due to be served on 16th November 2001. The Parties reached a settlement on January 29, 2002 with the following terms I) NetSol to pay 50,000 pounds sterling; II) 3,000 pounds sterling to be paid for 24 months beginning 31, March 2002; III) 4,000 pounds sterling to be paid for 24 months beginning March 31, 2004; IV) NetSol to release 155,000 shares in escrow; V) 650,000 144 shares to be issued to Surrey Design. NetSol made some of the payments and issued all the shares. On June 11, 2002, Plaintiff filed an enforcement of judgment in California Superior Court of Los Angeles to enforce the judgment. A request for Entry of Default was filed on July 30, 2002. On September 10, 2002 NetSol filed its Opposition to Plaintiff s request for Entry of Judgment and on September 16, 2002, Plaintiff filed its Motion to Strike NetSol s Opposition. On September 25, 2002, the Company and Surrey Design entered into an Agreement to Stay Enforcement of Judgment. The terms of the Agreement included (i) NetSol to pay 25,000 pounds sterling upon execution of this Agreement; (ii) By February 20, 2003, NetSol to pay an addition 25,000 pounds sterling; (iii) From October 31, 2002 to February 28, 2003, NetSol to pay 3,000 pounds sterling; and (iv) from March 31, 2003 for a period of 24 months, NetSol to pay 4,000 pounds sterling. The settlement amount has been accrued in the accompanying consolidated financial statements.

In addition, the Company and its subsidiaries have been named as a defendant in legal actions arising from its normal operations, and from time-to-time is presented with claims for damages arising out of its actions. The Company anticipates that any damages or expenses it may incur in connection with these actions, individually and collectively, will not have a material adverse effect on the Company.

(9) GOING CONCERN:

Table of Contents

The Company s consolidated financial statements are prepared using the accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern. This factor raises substantial doubt about the Company s ability to continue as a going concern.

Management recognizes that the Company must generate additional resources to enable it to continue operations. Management s plans included closing down of its loss generating UK entities, disposal of its German subsidiary, and is continually evaluating cost cutting measures at every entity level. Additionally, management s plans also include the sale of additional equity securities and debt financing from related parties and outside third parties. However, no assurance can be given that the Company will be successful in raising additional capital. Further, there can be no assurance, assuming the Company successfully raises additional equity, that the Company will achieve profitability or positive cash flow. If management is unable to raise additional capital and expected significant revenues do not result in positive cash flow, the Company will not be able to meet its obligations and may have to cease operations.

Uncertainties:

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks have caused major instability in the U.S. and other financial markets. Leaders of the U.S. government have announced their intention to actively pursue those behind the attacks and to possibly initiate broader action against global terrorism. Due to these attacks, any response may lead to armed hostilities or to further acts of terrorism in the United States or elsewhere, and such developments would likely cause further instability in financial markets. In addition, armed hostilities and further acts of terrorism may directly impact the Company s physical facilities and operations, which are located in North America, Australia and the Southeast Asian Region (including collectively significant subsidiaries located in Pakistan), or those of their customers. Furthermore, the recent terrorist attacks and future developments may result in reduced demand from customers for services or may negatively impact the clients ability to outsource. Currently, there are tensions involving Afghanistan, a neighbor of Pakistan and Iraq, which is located very near to Pakistan. These hostilities and tensions could lead to political or economic instability in Pakistan and a possible adverse effect on operations and future financial performance. These developments will subject the Company s worldwide operations to increased risks and, depending on their magnitude, could have a material adverse effect on the Company s financial position, results of operations or liquidity.

(10) FORMATION AND DISPOSAL OF SUBSIDIARIES:

During the period ended December 31, 2002, the Company formed a subsidiary in UK, NetSol Technologies Ltd., as a wholly owned subsidiary of NetSol Technologies, Inc. This entity is planned to serve as the main marketing and delivery arm for services and products sold and delivered in the UK and mainland Europe. The subsidiary had insignificant operations and assets as of December 31, 2002.

On March 18, 2002, a Winding-Up Order was made relating to the liquidation of NetSol (UK) Ltd. (a company organized under the laws of United Kingdom on December 19,

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

1997) on the petition of a creditor in respect of services supplied presented to the Court. During the period ended December 31, 2002, the Company wrote off debts of NetSol (UK) Ltd. amounting $478,075, based upon opinion of the Company s counsel that the creditors have no standing to enforce their claims on the Parent Company in the US. The Company has reflected such write-off as a gain from discontinuation of the subsidiary, in the Statement of Operations.

(11) SEGMENT INFORMATION

The following table presents a summary of operating information and certain year-end balance sheet information for the three-month periods ended December 31:

	2002	2001
Revenues from unaffiliated customers:		
North America	$ 255,435	$ 1,002,895
International	1,344,221	983,875
Consolidated	$ 1,599,656	$ 1,986,770
Operating loss:		
North America	$ (1,446,811)	$ (2,316,523)
International	(165,079)	(783,529)
Consolidated	$ (1,611,890)	$ (3,100,052)
Identifiable assets:		
North America	$ 5,180,277	$ 7,559,126
International	3,852,833	4,245,712
Consolidated	$ 9,033,110	$ 11,804,838
Depreciation and amortization:		
North America	$ 703,823	$ 761,913
International	172,017	55,750
Consolidated	$ 875,840	$ 817,663

13

Table of Contents

NETSOL TECHNOLOGIES, INC.   10QSB   Quarterly Report

PART I   FINANCIAL INFORMATION

ITEM 2

MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion is intended to assist in an understanding of the Company s financial position and results of operations for the quarter ending December 31, 2002.

Forward-Looking Information.

This report contains certain forward-looking statements and information relating to the Company that is based on the beliefs of its management as well as assumptions made by and information currently available to its management. When used in this report, the words anticipate , believe , estimate , expect , intend , plan , and similar expressions as they relate to the Company or its management, are intended to identify forward-lookin statements. These statements reflect management s current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this report as anticipated, estimated or expected. The Company s realization of its business aims could be materially and adversely affected by any technical or other problems in, or difficulties with, planned funding and technologies, third party technologies which render the Company s technologies obsolete, the unavailability of required third party technology licenses on commercially reasonable terms, the loss of key research and development personnel, the inability or failure to recruit and retain qualified research and development personnel, or the adoption of technology standards which are different from technologies around which the Company s business ultimately is built. The Company does not intend to update these forward-looking statements.

GENERAL

NetSol Technologies, Inc. formally known as NetSol International, Inc. (NetSol or the Company), is a Nevada corporation founded in 1997. The Company is in the business of information technology (I/T) services. Since its inception, the Company has developed enterprise solutions that help clients use I/T more efficiently in order to improve their operations and profitability and to achieve business results. Network Solutions Pvt. Ltd., a company formed under the laws of the country of Pakistan, a subsidiary of NetSol (NetSol PK), develops the majority of the software for the Company. NetSol PK was the first company in Pakistan to achieve the ISO 9001 accreditation. In addition, NetSol PK is the first IT company in Pakistan to receive the coveted Software Engineering Institute Capability Maturity Model (SEI CMM) Level 2 software development assessment. This is one of the highest levels of recognition for quality and best practices a software company can achieve.

Company Business Model

The Company offers a broad array of professional services to clients in the global commercial markets and specializes in the application of advanced and complex I/T enterprise solutions to achieve its customers strategic objectives. Its service offerings include outsourcing, systems integration, customized IT solutions, project/program management and I/T management consultancy, as well as other professional services, including e-business solutions.

Outsourcing involves operating all or a portion of a customer s technology infrastructure, including systems analysis, system design and architecture, change management, enterprise applications development, network operations, desktop computing and data center management.

Systems integration encompasses designing, developing, implementing and integrating complete information systems.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

I/T and management consulting services include advising clients on the strategic acquisition and utilization of I/T and on business strategy, operations, change management and business process reengineering.

The Company also develops sophisticated Leasing Software Systems for the asset based lease and finance industries. NetSol has developed a complete integrated Leasing Software Suite branded as LeaseSoft, which is a series of four applications that can be marketed and utilized in an integrated system. These applications are CAC, CAP, CAM. These four applications form the full suite of the asset based lending. LeaseSoft is a culmination of over 6 years of development effort and has over 60 modules. LeaseSoft is now complete as a product after our first customer of the last application CAM, UMF Singapore gone live. We are getting repeat orders for different application within the main suite. Yamaha Motors Finance Australia needed LeaseSoft.WFS to be live in ten weeks. NetSol team of consultants was able to complete the implementation of a very complex application at the back end in record ten weeks. Our latest contract has come from DaimlerChrysler Services Korea for LeaseSoft.WFS.

LeaseSoft.CAC is a browser-based Credit Application Creation System that can be used by any front-end selling operation, including motor vehicle dealers and other outlets. CAC users create quotations and financing applications for the customers using predefined financial products. The proposal is submitted to Back Office (CAP) for credit approval. After analysis, the proposal is sent back to CAC system with a final decision.

Credit Application Process System (CAP) provides various finance/leasing companies with the ability to quickly assess the worthiness of an applicant applying for a loan or a lease. The core of the system is driven by a strong workflow management engine with integrated links to credit rating agencies and offers an automated point scoring strategy for automatic approval/rejection/referral. It can be customized to link to any Credit Application Creation , and it has the ability to integrate any vehicle data provider such as Glass Guide in Europe and Australia.

The LeaseSoft.WFS (Wholesale Finance System) is developed to automate and manage the Whole Sale Finance (Floor Plan) activities of a Finance Company. The design of the system is based on the concept of One Loan One Asset to facilitate Asset Tracking and Costing of an asset. The system covers Credit Limit Request, Payment of Loan, Billing, and Settlement, Auditing of Stocks, Dealer Information and ultimately the pay-off functions.

The LeaseSoft.CAM Contract Administration & Management System manages lease/finance contracts for financing of vehicles from inception until completion and creates all the required accounting entries to interface with a general ledger. The leasing company is able to establish, maintain and terminate such financial contracts. Contracts may include added value services such as vehicle maintenance and/or insurance premiums. It furthermore incorporates functional extensions such as litigation, remarketing of vehicles, securitization of a portfolio and post dated check management.

These are traditionally complex business applications and require a great deal of industry experience both in the development as well as implementation stages. NetSol, over the years, has developed core competencies in the asset based lending software space. These are sought after skills shared in a team of approximately 50 business consultants. NetSol is able to demand a premium for these consultants and leverages this competency when bidding for new business.

Typically, the sales cycle for these products is anywhere between six to twelve months and NetSol derives its income both from selling the license to use the products as well as extensive customization, implementation, support and maintenance. License fees can vary generally between $100,000 to $1,000,000 per license depending upon the size of the customer and the complexity of the customization. The revenue for the license and the customization flows in several phases and could take from one month to a year before its is fully recognized as income in accordance with generally accepted accounting principles.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

STATUS OF ANY NEW PRODUCTS, CUSTOMERS OR SERVICES

The Company has added new projects in Daimler Chrysler and also signed up a contract for Yamaha Motors Australia. The new projects were initiated in late September 2002 therefore we anticipate the revenues to be realized in the quarter ending December 2002. The Company has signed up quite a few new contracts in Pakistan including SAF Games, Style Textiles, United Nations Development Foundation (UNDF) and others.

The Company expanded its menu of software into banking and other financial areas. NetSol PK launched new customized banking applications software. The Company has the technical know how and capability to successfully enter this vibrant banking sector. Over eight new business development and project management teams in the area of banking and finance were created in the second quarter of 2001. As a result of this new initiative, NetSol added a new fortune 500 customer such as Citibank in Pakistan NetSol USA, as a Government Suppliers Agreement (GSA) approved vendor, has the ability to participate in numerous government related contracts and projects tendered by the various government agencies.

Marketing and Selling

The objective of the Company s marketing program is to create and sustain preference and loyalty for NetSol as a leading provider of enterprise solutions, e-services consulting and software solutions provider. Marketing is performed at the corporate and business unit levels. The corporate marketing department has overall responsibility for communications, advertising, public relations and our website and also engineers and oversees central marketing and communications programs for use by each of our business units.

On October 1, 2002, NetSol Technologies Ltd. (NetSol UK Ltd.), was launched in Great Britain, as a wholly owned subsidiary of NetSol Technologies, Inc. This entity would be the main marketing and delivery arm for services and products sold and delivered in the UK and Europe. NetSol UK Ltd. appointed Rajeev Warrier as Senior Vice President and a local Director to run the operations from London. Mr. Warrier came to NetSol UK Ltd. after 11 years with CitiGroup in the UK. He was a Vice President, Risk Architecture with CitiGroup and brings over 18 years of IT and Banking experience and is a graduate of University of Bombay, India. In its first three months of operation, NetSol UK Ltd. secured two new contracts. The first with a major global financial institution in UK which is among the top ten banks worldwide; the other, is with an elite sports governing body based in London. The UK operation made a modest contribution to the top line revenue and management believes it could grow by 15% to 20% in each of the last two quarters of the current fiscal year.

The Company generally enters into written commitment letters with clients at or around the time it commences work on a project. These commitment letters typically contemplate that NetSol and the client will subsequently enter into a more detailed agreement, although the client s obligations under the commitment letter are not conditioned upon the execution of the later agreement. These written commitments and subsequent agreements contain varying terms and conditions and the Company does not generally believe it is appropriate to characterize them as consisting of backlog. In addition, because these written commitments and agreements often provide that the arrangement can be terminated with limited advance notice or penalty, the Company does not believe the projects in process at any one time are a reliable indicator or measure of expected future revenues.

NetSol provides its services primarily to clients in global commercial industries. In the global commercial area, the Company s service offerings are marketed to clients in a wide array of industries including, automotive; chemical; tiles/ceramics; Internet marketing; software; medical, banks and financial services.

Geographically, NetSol has operations in North America, the Middle East and Asia Pacific region, with a newly launched presence in Europe.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

CHANGES IN FINANCIAL CONDITION:

Six Month and Three Month Periods Ended December 31, 2002 as compared to the Six Month and Three Month Periods Ended December 31, 2001:

Net revenues were $1,599,656 and $946,325 for the six months and three-month periods ended December 31, 2002, respectively. Net revenues were $1,986,770 and $856,940 for the six months and three-month periods ended December 31, 2001, respectively. This reflects a decrease of $387,114 (19%) in the six-month period but an increase of $89,385 (10%) in the three-month period ended December 31, 2002. There has been a tremendous surge in demand of NetSol s niche lease and finance products as the company has experienced 100% increase in product demonstration, evaluation and assessment by blue chip companies in the UK, Australia, Japan, Germany and Pakistan. The crown jewel of our product line CMS (Contract Management System) which was sold to three companies of Daimler Chrysler Asia Pacific Region in 2001 for a combined value in excess of two million dollars went alive in January 27, 2003. Maturity of our key products has given rise to a very positive interest by many new blue chip customers globally. The world market size of leasing and financing industry is in excess of $500 Billion out which the Software sector represents over a Billion dollars. Number of large Leasing companies would be looking to renew legacy applications. This places NetSol in a very strong position to capitalize on any upturn in IT sending by these companies. NetSol is well positioned to sell several new licenses in 2003 that could potentially increase the sales and bottom line. As the Company sells more of these licenses it is possible that the margins increase to upward of 70%. The License prices of these products vary from $100,000 to $1,000,000 with additional charges for customization and maintenance of between 20%-30% each year. The Company, in parallel, has developed banking applications software to boost its product line and these systems have been sold to Citibank and Askari Banks in Pakistan in 2002. New customers in the banking sector are also growing and company expects substantial growth in this area in the coming year. In the last quarter, NetSol signed quite a few new contracts with new customers in Australia, Japan, UK and Pakistan.

Operating expenses were $2,588,846 and $1,134,292 for the six month and three month periods ending December 31, 2002 as compared to $3,359,076 and $1,322,420, respectively, for the corresponding periods last year. The decrease in the current fiscal year is largely attributable to the focus on reduction of all non-essential costs. The Company has streamlined it operations by consolidation, divestment and enhanced operating efficiencies. Depreciation and amortization expense amounted to $875,840 and 418,678 for the six month and three month period ended December 31, 2002, respectively. Depreciation and amortization expense amounted $817,663 and $408,740 for the six month and three-month period ended December 31, 2001, respectively. Combined general and administrative and salaries and wage costs were $1,245,751 and $572,867 for the six month and three month period ended December 31, 2002, respectively, or a decrease of $148,347 and $114,485 from corresponding periods last year. Combined general and administrative and salaries and wage costs were $1,394,098 and $687,352 for the six month and three month period ended December 31, 2001, respectively. This decrease is attributable to reduced operational expenses as the Company was in the process of working to reducing costs across the Company. Selling and marketing expenses decreased to $55,756 and $14,042 in the six month and three month periods ended December 31, 2002 as compared to $126,087 and $66,973 in the six month and three month periods ended December 31, 2001. The Company had settlement expenses of $389,860 in the fiscal 2001. No such expenses were incurred in the current quarter. The Company provided an allowance for bad debts of $86,421 in the current quarter. Professional services expense decreased to $243,766 and $42,284 in the six month and three month periods ended December 31, 2002 from $631,368 and $159,355 in the corresponding periods last year. Loss from continued operations were $1,681,661 and $534,874 in the six month and three month periods ended December 31, 2002 as compared to $3,232,874 and $1,386,356 for the corresponding periods last year. This is reduction of 47.9 % and 61.4% for the six-month and three month periods, respectively, compared to prior year.

In the quarter ended December 31, 2002, the Company wrote off debts pertaining to discontinued operations in UK amounting $478,075. This amount has been reflected as Gain from discontinuation of subsidiary in the Statement of Operations.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

Net Losses were $1,203,586 and $56,799 in the six month and three-month periods ended December 31, 2002 as compared to $3,232,874 and $1,386,356 for the corresponding periods last year. This is reduction of 62.8 % and 95.9% for the six-month and three periods, respectively, compared to prior year. Net loss per share, basic and diluted, were $0.06 and $.002 for the six month and three month periods ended December 31, 2002 as compared with $0.24 and $0.10 for the corresponding periods last year.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used for operating activities amounted to $712,628 for the six months ended December 31, 2002, as compared to $565,367 for the six months ended December 31, 2001, mainly due to increase in other assets and decrease of accounts payable and accrued expenses.

Net cash provided by investing activities amounted to $573,187 for the six months ended December 31, 2002, as compared to $(18,396) for the six months ended December 31, 2001, representing an improvement in cash provided by investing activities mainly due to proceeds from disposal of investments certificates of deposit of $614,334. The Company is actively exploring raising new capital in the emerging markets to adequately fund the Company for growth and enhancement in infrastructure. The cash position is projected to improve in the current and future quarters due to new business signed up in the last quarter.

Net cash provided by financing activities amounted to $104,429 for the six months ended December 31, 2002, as compared to net cash provided by financing activities of $516,691 for the six months ended December 31, 2001. The six-month period ended December 31, 2001 included the cash inflow of $419,050 from issuance of equity and $171,323 from proceeds of loans as compared to $173,635 from issuance of equity and $24,727 from proceeds of loans in the period ended December 31, 2002.

The Company s cash position was $151,902 at December 31, 2002. This is presented on the financial statements as $51,902 as cash and cash equivalents, and a total of $100,000 as certificates of deposit, which is included in other assets.

ADDITIONAL RAISE OF CAPITAL

The Company sold 805,993 shares of its restricted Rule 144 common stock in the amount of $98,719.16 through a private placement offering during the quarter ended December 31, 2001 pursuant to Rule 506 of Regulation D of the Securities and Exchange Act of 1933.

Certain employees exercised 940,000 stock options with exercise prices ranging from $0.08 to $0.25 during the second quarter, against salaries owed to them by the Company or loans made to the Company.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 31, 2002, Herbert Smith, a law firm in England, which represented NetSol in the Surrey matter, filed claim for the sum of 171,732.72 pounds sterling ($267,901.92 as of October 11, 2002), plus interest in the High Court of Justice Queen s Bench Division. On November 28, 2002, Herbert Smith filed a Consent Order to carry the terms of their mutually agreed settlement and payment schedule. If NetSol fails to maintain the terms of the Order, Herbert Smith will have to come to the US to enforce that judgment on NetSol.

On July 26, 2002, the Company was served with a Request for Entry of Default by Surrey Design Partnership Ltd. (Surrey). Surrey s Complaint for Damages filed with the Request for Entry of Default in Superior Court of California, County of Los Angeles (Central District), the sum of $288,743.41 plus interest at the rate of 10% above Bank of England base rate from January 13, 2002 until payment in full is received, plus costs, was sought. On January 29, 2002, Surrey filed a Consent Order with the High Court of Justice, Queens Bench division stating that the action filed by Surrey would be stayed if 218,000 pounds sterling was paid in accordance to a payment schedule agreed to by both parties. NetSol made payments up to May of 2002, but because of cash flow difficulties, was unable to make payments thereafter. On September 25, 2002, the parties signed an Agreement to Stay Enforcement of Judgment whereby NetSol will make further payments to Surrey until the entire sum is paid. NetSol does not anticipate any further action on this matter. NetSol has paid 25,000 Pounds Sterling in September to be current on the settlement plan and will continue to maintain monthly payments of 3,000 Pounds Sterling from November 1, 2002.

On May 23, 2002, Allied Interstate, Inc. (Allied or Plaintiff) filed a complaint seeking damages from NetSol International, Inc. (NetSol or Defendant) for breach of contract; open book account; account stated and reasonable value in Superior Court of California, County of Los Angeles, West District (Case No. SC072237). NetSol filed an answer on July 5, 2002 stating its affirmative defenses to the complaint. Plaintiff and Defendant commenced discovery. On September 30, 2002, NetSol filed three Motions to Compel Discovery, as no responses were sent by Allied. Allied later served Discovery responses were insufficient and not in substantial compliance with California Code of Civil Procedure. On December 5, 2002, a hearing was held whereby Defendant NetSol requested that the Court grant the following three motions: Motion to Compel Responses to Interrogatories and Imposing Monetary Sanctions; Motion to Compel Responses and Production of Documents and imposing Monetary Sanctions; Order that Matters be Deemed Admitted and For Imposition of Monetary Sanctions. Plaintiff did not file opposition or make an appearance at the December 5th hearing. The Court granted Defendant all three motions. On December 20, 2002, Defendant Allied filed a Motion for Reconsideration of granting the Order. On January 16, 2002, the Parties attended a Court Ordered Mediation. The Parties were unable to resolve their differences. Plaintiff s Motion for Reconsideration (of the Court s Order regarding the three Motions to Compel granted in favor of the Defendant) is scheduled for February 11, 2003. The Court has set a post mediation review hearing for February 28, 2003. NetSol will continue to vigorously defend its position in this case. A trial date has not been set.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

99   Certification

Exhibits and Reports on Form 8-K.

The Company filed reports on Form 8-K on October 23, 2002 during the quarter ended December 31, 2002 reporting a change in the Company s address and resignation of a member of the Board of Directors.

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Table of Contents

NETSOL TECHNOLOGIES, INC.   10QSB   Quarterly Report

NETSOL TECHNOLOGIES, INC.
(Registrant)

Date: February 6, 2003

/s/ Naeem Ghauri

NAEEM GHAURI
Chief Executive Officer

/s/ Najeeb Ghauri

NAJEEB GHAURI
Chief Financial Officer,
Secretary and Vice Chairman

20