NETSOL TECHNOLOGIES INC
Form 10QSB
November 12, 2002

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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 September 30, 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 20,600,499 shares of its $.001 par value Common Stock issued and outstanding as of November 6, 2002.

Transitional Small Business Disclosure Format (check one)

Yes [ ] No [X]

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET SEPTEMBER 30, 2002

(UNAUDITED)

ASSETS

Current assets:			
	Cash and cash equivalents	$ 50,148	
	Accounts receivable, net of allowance for doubtful amounts of $78,178	614,139	
	Revenues in excess of billings	130,789	
	Other current assets	264,983	
	Total current assets		$ 1,060,059
Property and equipment, net of accumulated depreciation and amortization			2,297,268
Other assets			851,258
Intangibles:			
	Product licenses, renewals, enhancements, copyrights, trademarks and tradenames, net	2,550,419	
	Customer lists, net	1,169,458	
	Goodwill, net	1,462,500	
	Total intangibles		5,182,377
			$ 9,390,962

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:	
Accounts payable and accrued expenses	$3,959,563
Current maturities of obligations under capitalized leases	233,796
Billings in excess of revenues	32,618
Loan payable, bank	377,172
Other current liabilities	49,752
Total current liabilities	$4,652,901
Obligations under capitalized leases, less current maturities	20,150
Loan payable	

	106,109
Contingencies Note 9	
Stockholders equity:	
Common stock; $.001 par value, 25,000,000 shares authorized, 19,445,499 shares issued and outstanding	19,425
Additional paid-in capital	31,797,750
Stock subscriptions receivable	(43,650)
Other comprehensive income	252,813
Accumulated deficit	(27,414,536)
Total stockholders equity	4,611,802
	$9,390,962

See accompanying notes to consolidated financial statements.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three month period ended September 30, 2002	Three month period ended September 30, 2001
Net revenues	$ 653,331	$ 1,129,830
Cost of revenues	330,035	907,470
Gross profit	323,296	222,360
Operating expenses:		
Selling and marketing	41,714	59,114
Depreciation and amortization	457,162	408,923
Settlement expenses		389,860
Bad debt expense	81,312	
Salaries and wages	258,500	409,639
Professional services, including non-cash compensation	201,482	472,014
General and administrative	414,384	297,107
Total operating expenses	1,454,554	2,036,657
Loss from operations	(1,131,258)	(1,814,297)
Other income (expense)	(15,529)	(32,222)
Net loss	$ (1,146,787)	$ (1,846,519)
Other comprehensive loss:		
Translation adjustment	(277,462)	(69,203)
Comprehensive loss	$ (1,424,249)	$ (1,915,722)
Net loss per share basic and diluted:	$ (0.06)	$ (0.15)
Weighted average shares outstanding - basic and diluted	19,408,292	12,291,721

See accompanying notes to consolidated financial statements

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three month period ended	
	September 30, 2002	September 30, 2001
Cash flows provided by (used in) operating activities:		
Net loss from continuing operations	$(1,146,787)	$(1,846,519)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	457,162	492,849
Non-cash compensation expense	6,200	621,390
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	558,395	475,670
Other current assets	(51,116)	51,387
Other assets	(219,646)	
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	105,323	30,292
Total adjustments	856,318	1,699,864
Net cash used in operating activities	(290,469)	(146,655)
Cash flows provided by (used in) investing activities:		
Purchase of property and equipment	(41,147)	(22,417)
Proceeds from disposal of investments certificates of deposit	300,000	32,031
Net cash provided by investing activities	258,853	9,614
Cash flows provided by (used in) financing activities:		
Issuance of common stock and warrants, net		301,550
Proceeds from loans	34,596	305,641
Principal payments on capital lease obligations	(39,746)	(45,573)
Net cash provided by (used in) financing activities	(5,150)	561,618
Net increase in (decrease in) cash and cash equivalents	(36,766)	424,577
Cash and cash equivalents, beginning of year	86,914	306,125
Cash and cash equivalents, end of year	$ 50,148	$ 730,702

See accompanying notes to consolidated financial statements.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

	Three month period ended	
	September 30, 2002	September 30 2001
Supplemental disclosure of cash flow information:		
Interest paid	$25,551	$ 30,575
Income taxes paid	$	$ 1,897
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common shares for services received	$ 6,200	$231,530
Issuance of shares for Settlement	$	$389,860
Issuance of 200,000 shares of common stock applied against acquisition payable	$	$ 50,000

See accompanying notes to consolidated financial statements.

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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, Network Solutions (PVT), Ltd., NetSol (PVT), Limited, NetSol Connect (PVT), Ltd., Network Solutions Group Ltd. and Subsidiaries, Abraxas Australia Pty Ltd., NetSol eR, Inc., Intereve Corporation, and NetSol USA, Inc. All material intercompany 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

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contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(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.

On January 1, 2002, the Company adopted Financial Accounting Standards Board Emerging Issues Task Force No. 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, (EITF 01-14). EITF 01-14 requires companies to characterize reimbursements received for out-of-pocket expenses incurred as revenue and to

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reclassify prior period financial statements to conform to current year presentation for comparative purposes. The Company s Services revenues now include reimbursable out-of-pocket expenses and Cost of services expenses include the costs associated with reimbursable out-of-pocket expenses. Prior to the adoption of EITF 01-14 the Company s historical financial statements recorded these expenses as net amounts in Cost of services. The adoption of EITF 01-14 did not have a significant impact on the services gross margin percentage and had no effect on net loss.

(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 statements since the effect of dilutive securities is anti-dilutive.

(6) FOREIGN CURRENCY:

The accounts of Network Solutions Group Ltd. and Subsidiaries and NetSol UK, Limited use the British Pounds, Network Solutions PK, Ltd., NetSol (Pvt), Limited and NetSol Connect PVT, Ltd. use Pakistan Rupees, NetSol Abraxas Australia Pty, Ltd. uses the Australian dollar and Supernet AG uses the German Mark as the functional currencies. NetSol International, 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 gains of $252,813 and $80,556 at September 30, 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 three month period ended September 30, 2002 and 2001, comprehensive loss in the consolidated statements of operation included translation loss of $277,462 and $69,203, respectively.

(7) PRIVATE PLACEMENT

The Company sold 750,000 shares of its restricted Rule 144 common stock in the amount of $112,500 through a private placement offering during the quarter ended September 30, 2001 pursuant to Rule 506 of Regulation D of the Securities and Exchange Act of 1933.

(8) 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

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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.

(9) LITIGATION:

Herbert Smith a law firm representing the Company in the UK, 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. Already accrued before.

On May 23, 2002, Allied Interstate Inc. filed a lawsuit for breach of contract, open book account, account stated, reasonable value against the Company. The Company had agreed to make four payments of $80,000. In August 2001, the Company sent a payment of $20,000 as agreed upon. However, soon thereafter, the Company received an electronic correspondence from the plaintiff that if the Company wanted all the books and records full payment was to be made. The Company did not make full payment and obtained books and records from alternate sources. Allied s position is that the Company breached its agreement; the Company s position is that they breached a covenant of the Agreement. The parties are both in discovery stage and no trial date has 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,

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NetSol to pay 4,000 pounds sterling. The settlement amount has been accrued in the accompanying consolidated financial statements.

(10) GOING CONCERN:

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 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. 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.

(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 September 30:

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	2002	2001
Revenues from unaffiliated customers:		
North America	$ 150,503	$ 673,381
International	502,828	456,449
Consolidated	$ 653,331	$ 1,129,830
Operating loss:		
North America	$ (1,041,278)	$ (1,448,576)
International	(89,980)	(365,721)
Consolidated	$ (1,131,258)	$ (1,814,297)
Identifiable assets:		
North America	$ 5,386,479	$ 8,535,984
International	4,004,483	4,340,519
Consolidated	$ 9,390,962	$ 12,876,503

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 September 30, 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

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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.

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 software systems for the asset based lease and finance industries. NetSol has developed a complete integrated lease and finance package, which is a series of five products that can be marketed and utilized in an integrated system. These products are ePOS, PMS, SMS, CMS (under development), and WFS. These five applications form the full suite of the asset based lending Enterprise Resource Planning applications. These applications can run virtually the entire operations of a captive leasing company.

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

Proposal Management System (PMS) 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 Point of Sale System, and it has the ability to integrate any vehicle data provider such as Glass Guide in Europe and Australia.

The NetSol Wholesale Finance System (WFS) 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

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Request, Payment of Loan, Billing, and Settlement, Auditing of Stocks, Dealer Information and ultimately the pay-off functions.

Settlement Management System (SMS) verifies the signed document sent by the dealer/broker/third party against the information stored in the Proposal Management System database. SMS verifies all calculations before loading the contract into the Contract Management System. Other main features are collection of first rental and disbursement of funds to dealers, insurance companies and other third parties. Workflow software is part of SMS and it enables the users of SMS to communicate with Proposal Management workflow or within its own workgroup.

The Contract Management System (CMS) 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 30 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 $75,000 to $500,000 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 six months to two years before its is fully recognized as income in accordance with generally accepted accounting principles.

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, Stylo 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. The entry in the banking sector was broadened by creating new relationships with yet new customers such as Askari Leasing Co. and a few other local customers in Asia Pacific region.

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

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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 April 25, 2002, the Company announced that Mark Caton had joined NetSol as Vice President of Sales in the United States. Mr. Caton s responsibilities included management of a team of senior level Account Executives located in Los Angeles, CA and Vienna, VA offices. The Sales and Marketing team will focus on selling to both IT consulting companies as well as small to medium sized companies who are looking to substantially reduce the cost of building complex Enterprise Solutions, without compromising on quality. The management believes that the industry focus of our sales professionals and as our business unit marketing personnel enhances their knowledge and expertise in these industries and will generate additional client engagements. However, this initiative has not paid the dividends expected and in September 2002, the sales and marketing team was reduced to a size we believe is appropriate for the current demand for our services in the North American market.

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 limited operations in Europe.

CHANGES IN FINANCIAL CONDITION

Three Months Ended September 30, 2002 as compared to the Three Months Ended September 30, 2001:

Net revenues were $653,331 for the quarter ended September 30, 2002. This is a decrease from the revenues of the same quarter for the previous year of $1,129,830. The current quarter revenues approximate the immediately preceding quarter ended June 30, 2002, which demonstrates stabilization of the revenues of the company. The Company has signed new contracts in Australia, Japan, UK and Pakistan towards the end of September 2002 and the revenue would be recognized in the current and future quarters. Prior to the recession, the invalid proxy contest and aftermath of the terrorist attacks last year, NetSol was set to maintain the double digit growth that it experienced until 2001. The Company has gone through a major transformation over the last twelve months. We have adjusted our business plan to reflect the general downturn in technology spending worldwide. We have reduced certain capacities to address costs but have continued to invest in improving processes and quality assurance in all our project delivery capabilities. We are now posed to benefit from our low cost base that would be ramped up as we begin to see revenue growth. The management feels with the continuous commitment, dedication and loyalty of all employees, it is now able withstand the ongoing challenges and is able to move forward with new business development initiatives in Europe and the Far East.

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, 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 is nearly ready to go live. 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 60%. The License prices of these products vary from $75,000 to $500,000 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.

The gross profit was $323,296 in the quarter ending September 30, 2002 as compared with $222,360 for the same quarter of the previous year. The gross profit percentage has increased from approximately 20% in the quarter ended September 30, 2001 to approximately 49% for the quarter ended September 30, 2002 as a result of the Company reducing cost across the board without compromising on its delivery capabilities. Whilst the cost of sales and the cost of delivery of projects have both been reduced in the quarter, the Company maintained all its delivery commitments and has won new business from existing and new customers. While management is striving to negotiate better pricing on new agreements, the Company has been required to react to overall general economic factors in determining its present pricing structure. The gross profit margin was also improved due to improved quality standards such as achieving the assessment of CMM Level 2 in 2002. NetSol PK is the first software house in Pakistan to achieve this distinction.

Operating expenses were $1,454,554 for the quarter ending September 30, 2002 as compared to $2,036,657 for the quarter ending September 30, 2001. 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 $457,162 for the quarter ended September 30, 2002 as compared to $408,923 for the quarter ended September 30, 2001. Combined general and administrative and salaries and wage costs were $258,500 for the quarter ended September 30, 2002, or a decrease of $151,139 from $409,639 for the quarter ended September 30, 2001. 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 41,714 in the quarter ended September 30, 2002 from $59,114 in the quarter ended September 30, 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 $81,312 in the current quarter. Professional services expense and General and administrative expenses decreased to a cumulative total of $615,866 from $769,121 in the corresponding period last year.

Net loss was $1,146,787 for the quarter ended September 30, 2002 as compared to $1,846,519 for the quarter ended September 30, 2001. This is reduction of 37.9% from last year with a net loss per share, basic and diluted, of $0.06 for the quarter ended September 30, 2002 as compared with $0.15 for the quarter ended September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used for operating activities amounted to $290,469 for the three months ended September 30, 2002, as compared to $146,655 for the three months ended September 30, 2001, mainly due to increase in other assets.

Net cash provided by investing activities amounted to $258,853 for the three months ended September 30, 2002, as compared to $9,614 for the three months ended September 30, 2001, representing an improvement in cash provided by investing activities mainly due to proceeds from disposal of investments certificates of deposit of $300,000. 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 used by financing activities amounted to $5,150 for the three months ended September 30, 2002, as compared to net cash provided by financing activities of $561,618 for the three months ended September 30, 2001. The three-month period ended September 30, 2001 included the cash inflow of $301,550 from issuance of equity and $305,641 from proceeds of loans as compared to $34,596 from proceeds of loans in the quarter ended September 30, 2002.

The Company s cash position was $452,400 at September 30, 2002. This is presented on the financial statements as $50,148 as cash and cash equivalents, and a total of $402,252 as certificates of deposit, which is included in other assets.

ADDITIONAL RAISE OF CAPITAL

None.

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. NetSol and Herbert Smith are currently in negotiations to enter into an agreeable payment plan to resolve this dispute. If the parties are unable to enter into a settlement agreement, then once Herbert Smith has its judgment, it 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.

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

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(a) Exhibits

99 Certification

(b) Exhibits and Reports on Form 8-K.

The Company filed reports on Form 8-K on July 9, 2002 during the quarter ended September 30, 2002 reporting a change in the Company s Accountants.

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.

NETSOL TECHNOLOGIES, INC.
(Registrant)

Date: November 11, 2002

/s/ Naeem Ghauri

NAEEM GHAURI
Chief Executive Officer

/s/ Najeeb Ghauri

NAJEEB GHAURI
Chief Financial Officer,
Secretary and Vice Chairman

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