

NETSOL TECHNOLOGIES INC

Form 10QSB

May 07, 2003

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2003

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 No

The issuer had 25,511,909 shares of its \$.001 par value Common Stock issued and outstanding as of March 31, 2003.

Transitional Small Business Disclosure Format (check one)

Yes No

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBIT 99

Table of Contents

NETSOL TECHNOLOGIES, INC.

INDEX

| | | | |
|----------|---------|--|----|
| PART I. | | FINANCIAL INFORMATION | |
| | Item 1. | Financial Statements | 3 |
| | | Consolidated Unaudited Balance Sheet as of March 31, 2003 | 3 |
| | | Comparative Unaudited Consolidated Statements of Operations for the nine Months and three months Ended March 31, 2003 and 2002 | 4 |
| | | Comparative Unaudited Consolidated Statements of Cash Flow for the nine Months Ended March 31, 2003 and 2002 | 5 |
| | | Notes to the Unaudited Consolidated Financial Statements | 7 |
| | Item 2. | Management's Discussion and Analysis or Plan of Operation | 15 |
| PART II. | | OTHER INFORMATION | 20 |
| | Item 1. | Legal Proceedings | 20 |
| | Item 2. | Changes in Securities and Use of Proceeds | 21 |
| | Item 3. | Defaults Upon Senior Securities | 21 |
| | Item 4. | Submission of Matters to a Vote of Security Holders | 21 |
| | Item 5. | Other Information | 22 |
| | Item 6. | Exhibits and Reports on Form 8-K | 22 |
| | | (a) Exhibits | |
| | | (b) Reports on Form 8-K | |

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

PART I - FINANCIAL INFORMATION

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET MARCH 31, 2003
(UNAUDITED)

| ASSETS | |
|--|--------------|
| Current assets: | |
| Cash and cash equivalents | \$ 499,330 |
| Accounts receivable, net of allowance for doubtful amounts of \$133,900 | 617,045 |
| Revenues in excess of billings | 323,143 |
| Other current assets | 183,686 |
| | \$ 1,623,204 |
| Property and equipment , net of accumulated depreciation and amortization | 2,143,042 |
| Other assets | 681,428 |
| Intangibles: | |
| Product licenses, renewals, enhancements, copyrights, trademarks and tradenames, net | 2,210,406 |
| Customer lists, net | 1,022,854 |
| Goodwill, net | 1,267,500 |
| | 4,500,760 |
| | \$ 8,948,434 |
| LIABILITIES AND STOCKHOLDERS EQUITY | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 2,788,691 |
| Current maturities of obligations under capitalized leases | 197,903 |
| Billings in excess of revenues | 163,739 |
| Loan payable, bank | 502,396 |
| Other current liabilities | 49,752 |
| | \$ 3,702,481 |
| Obligations under capitalized leases , less current maturities | 10,396 |
| Loan payable | 173,956 |
| Contingencies Note 9 | |
| Stockholders equity: | |
| Common stock; \$.001 par value, 50,000,000 shares authorized, 25,511,909 shares issued and outstanding | 25,512 |
| Additional paid-in capital | 32,806,067 |
| Stock subscriptions receivable | (43,650) |
| Other comprehensive income | 262,653 |
| Accumulated deficit | (27,988,981) |
| | 5,061,601 |
| | \$ 8,948,434 |

See accompanying notes to consolidated financial statements.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)**

| | Three month period ended March 31, 2003 | Three month period ended March 31, 2002 | Nine month period ended March 31, 2003 | Nine month period ended March 31, 2002 |
|---|--|--|---|---|
| <i>Net revenues</i> | \$ 914,258 | \$ 854,979 | \$ 2,513,914 | \$ 2,841,749 |
| Cost of revenues | 409,610 | 579,884 | 1,032,310 | 2,307,630 |
| Gross profit | 504,648 | 275,095 | 1,481,604 | 534,119 |
| Operating expenses: | | | | |
| Selling and marketing | 11,628 | 42,753 | 67,384 | 168,840 |
| Depreciation and amortization | 464,999 | 445,506 | 1,340,839 | 1,263,169 |
| Settlement expenses | | | | 389,860 |
| Bad debt expense | | | 167,733 | |
| Salaries and wages | 194,963 | 438,086 | 688,741 | 1,218,940 |
| Professional services, including non-cash compensation | 64,270 | 89,982 | 308,036 | 721,350 |
| General and administrative | 254,658 | 353,377 | 1,006,631 | 966,621 |
| Total operating expenses | 990,518 | 1,369,704 | 3,579,364 | 4,728,780 |
| Loss from operations | (485,870) | (1,094,609) | (2,097,760) | (4,194,661) |
| Other expense | (31,776) | (27,389) | (101,547) | (160,212) |
| Loss from continuing operations | (517,646) | (1,121,998) | (2,199,307) | (4,354,873) |
| Gain from discontinuation of a subsidiary | | | 478,075 | |
| Net Loss | (517,646) | (1,121,998) | (1,721,232) | (4,354,873) |
| Other comprehensive loss: | | | | |
| Translation adjustment | (10,715) | 164,481 | (267,622) | 331,923 |
| Comprehensive loss | \$ (528,361) | \$ (957,517) | \$ (1,988,854) | \$ (4,022,950) |
| Net loss per share basic and diluted: | | | | |
| Continued operations | \$ (0.02) | \$ (0.07) | \$ (0.09) | \$ (0.30) |
| Discontinued operations | | | 0.02 | |
| Net Loss | \$ (0.02) | \$ (0.07) | \$ (0.07) | \$ (0.30) |
| Weighted average shares outstanding | | | | |
| Basic and diluted | 21,648,172 | 16,100,236 | 24,025,798 | 14,421,686 |

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
(UNAUDITED)**

| | Nine-month periods ended | |
|--|--------------------------|-------------------|
| | March 31, 2003 | March 31, 2002 |
| Cash flows provided by (used in) operating activities: | | |
| Net loss from continuing operations | \$(1,721,232) | \$(4,354,873) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,340,839 | 1,665,683 |
| Non-cash compensation expense | 365,469 | 919,116 |
| Discontinued operations | (478,075) | |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accounts receivable | 555,489 | 634,399 |
| Other current assets | (162,173) | 34,570 |
| Other assets | (464,150) | (127,140) |
| Increase (decrease) in liabilities - | | |
| Accounts payable and accrued expenses | (445,322) | 511,056 |
| Total adjustments | 712,077 | 3,637,684 |
| Net cash used in operating activities | (1,009,155) | (717,189) |
| Cash flows provided by (used in) investing activities: | | |
| Purchase of property and equipment | (90,172) | (91,455) |
| Proceeds from disposal of investments - certificates of deposit | 714,334 | 35,666 |
| Net cash provided by (used in) investing activities | 624,162 | (55,789) |
| Cash flows provided by (used in) financing activities: | | |
| Issuance of common stock and warrants, net | 655,135 | 517,049 |
| Proceeds from loans | 227,667 | 170,705 |
| Principal payments on capital lease obligations | (85,393) | (168,831) |
| Net cash provided by financing activities | 797,409 | 518,923 |
| Net decrease in cash and cash equivalents | 412,416 | (254,055) |
| Cash and cash equivalents, beginning of year | 86,914 | 306,125 |
| Cash and cash equivalents, end of year | \$ 499,330 | \$ 52,070 |

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)**

| | Nine-month periods ended March 31, | |
|--|---------------------------------------|------------|
| | 2003 | 2002 |
| | _____ | _____ |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 58,779 | \$ 50,077 |
| | _____ | _____ |
| Income taxes paid | \$ 5,078 | \$ 3,597 |
| | _____ | _____ |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Issuance of common shares for services received | \$ 352,859 | \$ 529,256 |
| | _____ | _____ |
| 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.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

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

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

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.

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

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

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 Company has adopted the disclosure provisions of SFAS No. 148.

On April 30, the FASB issued FASB Statement No. 149 (FAS 149), *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. FAS 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of FASB Statement No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*. FAS 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. FAS 149 is effective (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The Company does not expect the adoption of SFAS No. 149 to have a material impact on its financial position or results of operations or cash flows.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

(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.

(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 \$262,653 and \$481,682 at March 31, 2003 and 2002, respectively, are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet. During the nine month period ended March 31, 2003 and 2002, comprehensive gain (loss) in the consolidated statements of operation included translation loss of \$267,622 and gain of \$331,923, respectively. During the three month period ended March 31, 2003 and 2002, comprehensive gain (loss) in the consolidated statements of operation included translation loss of \$10,715 and gain of \$164,481, 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.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

(8) LITIGATION:

During January and February 2001, the Company entered into an equity financing agreement with Deephaven Capital Management (Deephaven). Pursuant to this agreement, the Company sold an aggregate of 462,870 restricted common shares for proceeds of \$1,850,047, net of offering costs of \$150,000. In addition, the Company issued warrants to purchase an aggregate of up to 54,945 shares of common stock at an exercise price of \$6.83 per share in January 2001 and warrants to purchase an aggregate of up to 83,916 shares of common stock at an exercise price of \$4.47 per share in February 2001, respectively. All warrants are exercisable for a period of five years from the date of issuance and have adjustment provisions for dilution events in connection with issuances of our common stock and other equivalents below the applicable warrant exercise price and for stock splits, stock dividends and similar transactions. In the event of default, the Company may become potentially liable up to \$400,000 with respect to some of its obligations under the registration rights agreement with Deephaven.

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. Trial date has been set for May 7, 2003. Netsol will continue to vigorously defend its position in this case.

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

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

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.

On March 27, 2003, Arab Commerce Bank filed a complaint in the Supreme Court of the State of New York on the first count seeking damages for breach of a Note Purchase Agreement and Note. Plaintiff alleges that NetSol did not issue stock in a timely manner in December 2000 resulting in compensatory damages in the amount of \$146,466.72. In the event the Plaintiff is unable to collect the amount sought in the first count, it requests that NetSol pay its principal sum of \$100,000 and interest at the rate of 9% per annum on the maturity date of December 10, 2000. NetSol plans to hire counsel in New York to vigorously defend its position on this matter.

On April 8, 2003, Senn Palumbo Meulemans filed a complaint in the Orange County Superior Court seeking damages for breach of contract. Plaintiff alleges NetSol did not pay for services it received and claims damages in the amount of \$26,226.81, which includes interest. NetSol intends to vigorously defend its position on this matter.

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 are 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:

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

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

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. The war with Iraq and a poor economy could also have a material adverse effect on the business of the Company.

(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 March 31, 2003.

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, 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 March 31:

| | 2003 | 2002 |
|---------------------------------------|---------------|---------------|
| Revenues from unaffiliated customers: | | |
| North America | \$ 339,601 | \$ 1,230,852 |
| International | 2,174,313 | 1,610,897 |
| Consolidated | \$ 2,513,914 | \$ 2,841,749 |
| Operating loss: | | |
| North America | \$(1,889,711) | \$(3,358,211) |
| International | (208,049) | (836,450) |

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

| | | |
|--------------------------------|----------------|----------------|
| Consolidated | \$ (2,097,760) | \$ (4,194,661) |
| Identifiable assets: | | |
| North America | \$ 4,830,663 | \$ 6,938,248 |
| International | 4,117,771 | 4,256,374 |
| Consolidated | \$ 8,948,434 | \$ 11,194,622 |
| Depreciation and amortization: | | |
| North America | \$ 1,086,631 | \$ 1,179,242 |
| International | 254,208 | 83,927 |
| Consolidated | \$ 1,340,839 | \$ 1,263,169 |

(11) STOCK OPTIONS

The Board of Directors of the Company adopted a stock option plan (the "Stock Option Plan") effective December 5, 2002. The purpose of the Stock Option Plan is to allow the Company to grant options to directors, officers, employees and service providers, as additional compensation, and as an opportunity to participate in the profitability of the Company. The granting of such options is intended to align the interests of such persons with that of the Company. Options will be exercisable over periods of up to ten years as determined by the board of directors of the Company and are required to have an exercise price no less than the fair market value on the day the option is granted. The total number of restricted shares available under the 2002 Stock Option Plan is 10,000,000 restricted common shares. If an award of options expires or is canceled without having been fully exercised or vested, the unvested or canceled shares generally will be available again for grants under the awards.

Certain employees exercised 1,000,000 stock options with exercise prices ranging from \$0.10-\$0.25 during this quarter, against salaries owed to them by the Company or loans made to the Company.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation: Transition and Disclosure", which amended FAS No. 123, "Accounting for Stock-Based Compensation". The new standard provides alternative methods of transition for a voluntary change to the fair market value based method for accounting for stock-based employee compensation. Additionally, the statement amends the disclosure requirements of FAS No. 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. This statement is effective for financial statements for the year ended December 31, 2002. In compliance with FAS No. 148, the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation plan as defined by APB No. 25 and has made the applicable disclosures below.

Had the Company determined employee stock based compensation cost based on a fair value model at the grant date for its stock options under SFAS 123, the Company's net loss per share would have been adjusted to the pro forma amounts for the three months ended March 31, 2003 and 2002 as follows (\$ in thousands, except per share amounts):

| | 2003 | 2002 |
|--|----------|------------|
| Net loss - as reported | \$ (518) | \$ (1,122) |
| Stock-Based employee compensation expense included in reported net income, net of tax | | |
| Total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax | (14) | |
| Pro forma net income | \$ (532) | \$ (1,122) |
| Earnings (loss) per share: | | |
| Basic, as reported | (0.02) | (0.07) |
| Diluted, as reported | (0.02) | (0.07) |
| Basic, pro forma | (0.02) | (0.07) |
| Diluted, pro forma | (0.02) | (0.07) |

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

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 March 31, 2003.

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-looking 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.

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.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

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.

STATUS OF ANY NEW PRODUCTS, CUSTOMERS OR SERVICES

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

The Company has signed new contracts with Daimler Chrysler in Thailand, Daimler Chrysler South Korea and UMF in Singapore in the past quarter. Some of the new projects were initiated in late March, 2003, therefore we anticipate the revenues to be realized in the quarter ending June, 2003. The Company continues to sign new contracts in Pakistan, including a contract to provide Wireless Broadband Internet access to the Army Welfare Trust, through its wholly owned subsidiary NetSolConnect.

The Company has signed a non-binding Letter of Intent to acquire the intellectual property rights to a solution that delivers a banking treasury system via Straight Through Processing (STP). After the due diligence process, if the intellectual property meets with the Company's expectations, the Company intends to further develop the solution and begin marketing around the last quarter of calendar year 2003. The treasury solution is targeted towards major banks, financial institutions as well as any major corporation with a treasury function.

The Company continues to enhance its existing solutions within the banking and Asset Based Leasing business sectors.

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.

The Company grew its pre-sales and marketing team in the UK by two additional resources. As visibility has grown in the sales pipeline in the UK, it was timely to add more personnel to tackle the numerous steps in the sales process. The UK company has been invited to submit responses to a number of RFPs, which provides a better gauge of the conversion rate, as opposed to making general sales calls. NetSol UK operations have been successful in creating these new opportunities in the past three months and are in late stage of negotiations with various different prospects. The target industries to prospect in the UK are banks, financial institutions and large solution providers that need to outsource mission critical systems.

With the success of the business development initiatives taken in the UK, the Company is looking to replicate the model in the US. New marketing initiatives are expected to be launched in the current quarter in the US, leveraging our existing presence in the Washington DC area.

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:

Nine Month and Three Month Periods Ended March 31, 2003 as compared to the Nine Month and Three Month Periods Ended March 31, 2002

Net revenues were \$2,513,914 and \$914,258 for the nine months and three-month periods ended March 31, 2003, respectively. Net revenues were \$2,841,749 and \$854,979 for the nine months and three-month periods ended March 31, 2002, respectively. This reflects a decrease of \$327,835 or 11% in the nine-month period but an increase of \$59,279 or 7% in the three-month period ended March 31, 2003. There has been a tremendous upward momentum in demand for 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, Singapore, Thailand, South Korea and Pakistan. NetSol was awarded several new contracts from the companies in South Korea, Singapore and in Thailand in the last quarter for LeaseSoft systems such as CAM, CAP and WFS. As these products have gone live in many different customers sites in various countries the demand of these matured products or on the rise. 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 of 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 spending 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 \$1000,000 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.

Due to the War in Iraq in March 2003, some of the contracts in the service sector pipeline were delayed by the customers. The Company now expects to close them in the last quarter ending June 2003. Despite of the geo-political unrest and Severe Acute Respiratory Syndrome (SARS) threat in the Asia Pacific Region, the pipeline for new contracts and customers continues to grow.

Operating expenses were \$3,579,364 and \$990,518 for the nine month and three month periods ending March 31, 2003 as compared to \$4,728,780 and \$1,369,704, 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, reducing personals, and improving the productivity. The Company has streamlined its operations by consolidation, divestment and enhanced operating efficiencies. Depreciation and amortization expense amounted to \$1,340,839 and \$464,999 for the nine month and three month period ended March 31, 2003, respectively. Depreciation and amortization expense amounted \$1,263,169 and \$445,506 for the nine month and three-month period ended March 31, 2002, respectively. Combined general and administrative and salaries and wage costs were \$1,695,372 and \$449,621 for the nine month and three month period ended March 31, 2003, respectively, or a decrease of \$490,189 or 22.4% and \$341,842 or 43% from corresponding periods last year. 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 \$67,384 and \$11,628 in the nine month and three month periods ended March 31, 2003 as compared to \$168,840 and \$42,753 in the nine month and three month periods ended March 31, 2002. The Company had settlement expenses of \$389,860 in the fiscal 2002. No such expenses were incurred in the current quarter. The Company had no addition to the provision for bad debt expense in this quarter while the Company provided an allowance for bad debts of \$167,733 in the period ended through December 31, 2002. Professional services expense decreased to \$308,036 and \$64,270 in the nine

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

month and three month periods ended March 31, 2003 from \$721,350 and \$89,982 in the corresponding periods last year.

Loss from continued operations were \$2,199,307 and \$517,646 in the nine month and three month periods ended March 31, 2003 as compared to \$4,354,873 and \$1,121,998 for the corresponding periods last year. This is reduction of 49.5 % and 53.9% for the nine-month and three month periods, respectively, compared to prior year.

In the quarter ended March 31, 2003, the Company had no liability written off but 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 in the quarter ended December 31, 2002.

Net Losses were \$1,721,232 and \$517,646 in the nine month and three-month periods ended March 31, 2003 as compared to \$4,354,873 and \$1,121,998 for the corresponding periods last year. This is reduction of 60.5% and 53.9% for the nine-month and three periods, respectively, compared to prior year.

Net loss per share, basic and diluted, were \$0.07 and \$0.02 for the nine month and three month periods ended March 31, 2003 as compared with \$0.30 and \$0.07 for the corresponding periods last year.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used for operating activities amounted to \$1,009,155 for the nine months ended March 31, 2003, as compared to \$717,189 for the nine months ended March 31, 2002, mainly due to increase in other assets and decrease of accounts payable and accrued expenses.

Net cash provided by investing activities amounted to \$624,162 for the nine months ended March 31, 2003, as compared to \$(55,789) for the nine months ended March 31, 2002, representing an improvement in cash provided by investing activities mainly due to proceeds from disposal of investments certificates of deposit of \$714,334. 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 \$797,409 for the nine months ended March 31, 2003, as compared to net cash provided by financing activities of \$518,923 for the nine months ended March 31, 2002. The nine-month period ended March 31, 2002 included the cash inflow of \$517,049 from issuance of equity and \$170,705 from proceeds of loans as compared to \$655,135 from issuance of equity and \$227,667 from proceeds of loans in the period ended December 31, 2003.

The Company's cash position was \$499,330 at March 31, 2003 compared to \$52,070 at March 31, 2002. The Company had a net increase of cash flow in the period ended March 31, 2003, amounting \$412,416 as compared to a net decrease of \$254,055 in the corresponding period last year.

ADDITIONAL RAISE OF CAPITAL

In April 2003, the Company reported it secured a \$1 million revolving line of credit from United Kingdom-based DCD Trade Services Ltd., a subsidiary of DCD Holdings Ltd. In February 2003 DCD Holdings signed a \$2.0 million investment agreement. DCD Holdings, one of NetSol's largest investors, has worldwide representation and manages investments of approximately \$650 million. The new line of credit was established to support new projects requiring an upfront cash outlay to begin the project.

In February 2003, DCD Holdings Ltd., a UK investment company, signed an agreement to acquire 1,350,000 Rule 144 restricted shares of NetSol Technologies, Inc., in a private placement. The agreement also includes warrants for underlying shares of restricted Rule 144 stock totaling 2,750,000 with an average price of \$0.625. NetSol immediately received approximately \$260,000. The board of NetSol ratified the agreement between the two companies.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

Certain employees exercised 1,000,000 stock options with exercise prices ranging from \$0.10-\$0.25 during this quarter, against salaries owed to them by the Company or loans made to the Company.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 8, 2003, Senn Palumbo Meulemans filed a complaint in the Orange County Superior Court seeking damages for breach of contract. Plaintiff alleges NetSol did not pay for services it received and claims damages in the amount of \$26,226.81, which includes interest. NetSol intends to vigorously defend its position on this matter.

On March 27, 2003, Arab Commerce Bank filed a complaint in the Supreme Court of the State of New York (Index No.: 600709/03) on the first count seeking damages for breach of a Note Purchase Agreement and Promissory Note. Plaintiff alleges that NetSol did not issue stock in a timely manner in December 2000 resulting in compensatory damages in the amount of \$146,466.72. In the event the Plaintiff is unable to collect the amount sought in the first count, it requests that NetSol pay its principal sum of \$100,000 and interest at the rate of 9% per annum on the maturity date of December 10, 2000. NetSol plans to hire counsel in New York to vigorously defend its position on this matter.

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. Trial date has been set for May 7, 2003.

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The Company held its annual General Meeting of Shareholders on February 11, 2003. The following matters were submitted to vote of the shareholders at the meeting.

1. Election of Directors at the General Annual Meeting.

The following persons were elected directors of the Company to hold office until the next Annual General Meeting of the Shareholders:

The following sets forth the tabulation for each director.

| Director | Voted | Withhold | Percent | Total shares voted |
|---------------|------------|----------|---------|--------------------|
| Najeeb Ghauri | 19,533,003 | 12,824 | 83.8 | 19,533,003 |
| Eugen Beckert | 19,533,003 | 12,824 | 83.8 | 19,533,003 |
| Naeem Ghauri | 19,533,003 | 12,824 | 83.8 | 19,533,003 |
| Jim Moody | 19,533,003 | 12,824 | 83.8 | 19,533,003 |
| Salim Ghauri | 19,533,003 | 12,824 | 83.8 | 19,533,003 |
| Mark Caton | 19,533,003 | 12,824 | 83.8 | 19,533,003 |
| Shahid Burki | 19,533,003 | 12,824 | 83.8 | 19,533,003 |
| Irfan Mustafa | 19,533,003 | 12,824 | 83.8 | 19,533,003 |

2. Appointment of Auditors

Kabani & Company Inc. were appointed as Auditors for the Company to hold office until the close of the next annual general meeting of the Company. The directors were authorized to fix the remuneration to be paid to the auditors. The following sets for the tabulation of shares voting for this matter.

| Total Shares Voted | For | Against | Abstain | Percent |
|--------------------|------------|---------|---------|---------|
| 19,545,827 | 19,533,153 | 10,720 | 1,954 | 83.8 |

3. Stock Option Plan

The Board of Directors of the Company adopted a stock option plan (the Stock Option Plan) effective December 5, 2002, subject to acceptance by the shareholders of the Company. This plan offers only restricted shares.

The purpose of the Stock Option Plan is to allow the Company to grant options to directors, officers, employees and service providers, as additional compensation, and as an opportunity to participate in the profitability of the Company. The granting of such options is intended to align the interests of such persons with that of the Company. Options will be exercisable over periods of up to ten years as determined by the board of directors of the Company and are required to have an exercise price no less than the fair market value on the day the option is granted.

Edgar Filing: NETSOL TECHNOLOGIES INC - Form 10QSB

The total number of shares available under the 2002 Stock Option Plan is 10,000,000 restricted common shares. If an award of options expires or is canceled without having been fully exercised or vested, the unvested or canceled shares generally will be available again for grants under the awards.

| Total Shares voted | For | Against | Abstain | Percent |
|---------------------------|------------|----------------|----------------|----------------|
| 19,545,827 | 12,656,235 | 391,472 | 1,490 | 54.8 |

21

Table of Contents

NETSOL TECHNOLOGIES, INC. 10QSB Quarterly Report

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 February 27, 2003 during the quarter ended March 31, 2003 reporting terminating its engagement of Mezzanine Associates LLC. In the same filing the Company also reported the election of its officers at the annual meeting of shareholders which took place on February 11, 2003.

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: May 6, 2003

/s/ Naeem Ghauri

NAEEM GHAURI
Chief Executive Officer

/s/ Najeeb Ghauri

NAJEEB GHAURI
Chief Financial Officer,
Secretary and Chairman