NETSOL TECHNOLOGIES INC
Form 10KSB
October 15, 2002

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

[x] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-22773

NETSOL TECHNOLOGIES, INC.

(Name of small business issuer as specified in its charter)

NEVADA	**95-4627685**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

24011 Ventura Blvd., 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)

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT:

(None)

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:

COMMON STOCK, $.001 PAR VALUE
(TITLE OF CLASS)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B, is not contained in this form and no disclosure will be continued, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to the Form 10-KSB. [ ]

Registrant s net revenues for the fiscal year ended June 30, 2002 were $3,578,113.

As of October 4, 2002, Registrant had 19,445,499 shares of its $.001 par value Common Stock issued and outstanding with an aggregate market value of the common stock held by non-affiliates of $1,484,624.61. This calculation is based upon the closing sales price of $0.21 per share on September 4, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

(None)

Transitional Small Business Disclosure Format (Check one): Yes [ ]; No [X]

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TABLE OF CONTENTS AND CROSS REFERENCE SHEET

PART I

This Form 10KSB contains forward looking statements relating to the development of the Company s products and services and future operation results, including statements regarding the Company that are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The words believe, expect, anticipate, intend, variations of such words, and similar expressions identify forwar looking statements, but their absence does not mean that the statement is not forward looking. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Factors that could affect the Company s actual results include the progress and costs of the development of products and services and the timing of the market acceptance.

ITEM 1 - BUSINESS

General

NetSol Technologies, Inc. (F/K/A NetSol International, Inc. NetSol or the Company) is in the business of information technology (I/T) services. Since it was founded in 1997, 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 Technologies Pvt. Ltd. (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. This year, the Company also obtained the SEI CMM Level 2 accreditation. This is one of the highest levels of recognition for quality and best practices a software house can achieve.

Company Business Model

Company s business model has evolved over the passed five years. NetSol now offers a broad spectrum of IT products and IT services that deliver a high return on investment for its customers. NetSol has perfected its delivery capabilities by continuously investing in maturing its software development and Quality Assurance (QA) processes. NetSol s key competitive advantage is its ability to build high quality enterprise applications using its offshore development facility in Lahore, Pakistan. Over 80% of NetSol s revenue is generated in US Dollars and 80% of its overhead is incurred in Rupees, providing NetSol with a distinct cost arbitrage business model.

NetSol, from the outset, invested heavily in creating a state of the art, world-class software development capability. A series of QA initiatives have delivered to NetSol the ISO 9001 certification as well as the assessment at CMM level 2 by Carnegie Mellon s SEI (Software Engineering Institute). Company has been told it is technically too far along to obtain CMM 3 and it should bypass this assessment and seek CMM level 4 instead. NetSol s management anticipates the Company will be able to attain a CMM Level 4 assessment, by the end of 2003 fiscal year. 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.

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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, 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 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 up to $1,000,000 per license depending upon the size of the customer and the complexity of the customization. The yearly maintenance and enhancement could add up to 30% over the value of license. 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 OR SERVICES

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 Bank and a few other local customers in Asia Pacific region.

As a result of continuing weakness in IT spending in the US, NetSol s US subsidiaries have curtailed their business development activities. We are conserving cash, earmarked for marketing in the US. Once these challenging times have passed, we believe we can utilize those funds much more effectively as technology spending in the US becomes more active.

The concept of the PDC has proved successful for NetSol in fiscal year 2001. NetSol eR, Inc., and NetSol USA, Inc., both wholly owned subsidiaries of NetSol, implemented PDC models with their customers such as Leverage Consulting, OPSION Medical, Voice Stream Wireless and Global One. NetSol USA also specializes in providing professional IT consultants and project managers to fortune 500 companies and, as a Government Suppliers Agreement (GSA) approved vendor, it has the ability to participate in numerous government related contracts and projects tendered by the various government agencies.

Marketing and Selling

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

Our dedicated marketing personnel within the business units undertake a variety of marketing activities, including sponsoring focused client events to demonstrate our skills and products, sponsoring and participating in targeted conferences and holding private briefings with individual companies.

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We believe that the industry focus of our sales professionals and our business unit marketing personnel enhances their knowledge and expertise in these industries and will generate additional client engagements. With the US technology market slow down, NetSol marketing teams are concentrating on the markets overseas with an eye on the US market.

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 and launching an aggressive marketing campaign ramping up over the next ninety days. 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. We believe 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 we were expecting and in September 2002, we reduced the sales and marketing team 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 throughout North America, the Middle East and Asia Pacific region. With limited operation in Europe.

During the last two fiscal years, the Company s revenue mix by major markets was as follows:

	2002	2001
North American (NetSol USA, NetSol eR, Intereve)	41%	38%
Europe (NetSol UK, Network Solutions Group)	0%	15%
Other International (Abraxas, Network Solutions PK, NetSol Private PK, NetSol Connect)	59%	47%
Total Revenues	100%	100%

Fiscal Year 2002 Performance Overview

Global Commercial Market: New contracts were awarded in various markets worldwide and NetSol added these customers in fiscal year 2002: Citibank Pakistan, Pakistan; Askari Bank, Pakistan; Yamaha Motors, Australia; Style Textiles, Pakistan; United Nations Development Program, Pakistan; Election Commission of Pakistan, Pakistan; and ICI Dulux, Pakistan. In addition, NetSol continues its services to these customers as well: Volvo Finance Australia, Australia; OPSION Medical, USA; Leverage Consulting, USA; 9th SAF Games, Pakistan; Daimler-Chrysler Asia Pacific, Thailand and Singapore; and, Mercedes Benz Finance, Australia. The Company diversified its services by launching new customized IT solutions for financial and banking sectors. The Company built a new team of technical and marketing staff to cater to this sector exclusively. NetSol development teams are diligently working on designing the system for Citibank. The Company has effectively expanded its development base and technical capabilities by training its programmers to provide customized IT solutions in many other sectors and not limiting itself to lease and finance industries. The Company believes that the offshore development concept has been successful as evidenced by several companies in India, which according to the recent statistics by the Indian IT agency, NASSCOM, had software exports exceeded $5 billion in the calendar year 2000 and to $7 billion in 2001. This upward trend is expected to continue albeit at a slower pace due to the general decline in technology sector in the recent months. According to an article by Reuters dated August 23, 2001, India s software association scaled down export growth target estimates to between 40 and 45 percent and forecasts exports to reach $8.5-9 billion in the year to March 2002. About 60% of the business currently comes from the United States.

The Australian market continues to be vibrant as NetSol maintains its customers such as GMAC Australia, St. George Bank and Volvo Australia. The Company continues to pursue new customers and new business from its existing customers for its core product lines.

NetSol CONNECT was launched in early 2000 in Karachi, Pakistan s largest city. Prior to NetSol CONNECT s technology being brought to Karachi, the concept of high speed Internet Service Provider (ISP) backbone infrastructure was new in Pakistan. NetSol was the first company to turn such concept into reality. In the past two years NetSol CONNECT has become the second largest high speed and fast access ISP in Karachi. NetSol believes the ISP space is still in its infancy and the growth prospects are extremely good. By the end of Fiscal year 2002, the direct membership was over 40,000 subscribers. The main competitor of NetSol CONNECT has subscriber base in the range of 40,000-50,000 in Karachi and has been in business for over 7 years. NetSol CONNECT has been able to attract a number of local and multi-national corporate clients in addition to individual retail customers. *NetSol IR*, a brand of NetSol Connect, was ranked by Pakistan s Ministry of Science & Technology as one of the leading brand in the regional markets of Karachi, Pakistan with respect to high speed connectivity and service. *NetSol IR* rapid growth has contributed to NetSolCONNECT revenue in excess of 40% in the corporate sector. The retail business continues to hold steady with revenue close to 60%.

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Technology Campus

The Company broke ground for its Technology Campus in January 2000 with a three-phase plan of completion. Initially, the Company anticipated the completion of Phase One by fall 2000, but due to the delay in financing, the completion is expected now sometime in 2003. Phase One of construction is over 80% complete. This phase alone will accommodate up to 600 IT professionals. By relocating the entire Pakistan operation from its current leased premises to the Campus, the Company would save approximately $150,000 annually. Once fully operational and completed, the campus is expected to house over 3,000 I/T professionals in approximately three acres. The campus site is located in Pakistan s second largest city, Lahore, which has a population of six million. An educational and cultural center, the city is home to several leading universities of Engineering and Technology, as well as *FAST*, the largest computer research and training institute in Pakistan. The city is also the home of The University of Punjab founded in 1882, the oldest university in Pakistan. The Company is making this investment to attract contracts and projects from blue chip customers from all over the world. This campus will be the first purpose built software building with state of the art technology and communications infrastructure in Pakistan.

People and Culture

The Company has developed a strong corporate culture that is critical to its success. Its key values are delivering world-class quality software, client-focused timely delivery, leadership, long-term relationships, creativity, openness and transparency and professional growth. The services provided by NetSol require proficiency in many fields, such as computer sciences, programming, mathematics, physics, engineering, and communication and presentation skills. The majority of our software developers are proficient in the English language as it is the second most spoken language in Pakistan and is mandatory in middle and high schools.

To encourage all employees to build on our core values, we reward teamwork and promote individuals who demonstrate these values. NetSol offers all of its employee s opportunity to participate in its stock option program. Also, the Company has an intensive orientation program for new employees to introduce our core values and a number of internal communications and training initiatives defining and promoting these core values. We believe that our growth and success are attributable in large part to the high caliber of our employees and our commitment to maintain the values on which our success has been based. NetSol worldwide is an equal opportunity employer.

There is significant competition for employees with the skills required to perform the services we offer. We believe that we have been successful in our efforts to attract and retain the highest level of talent available, in part because of our emphasis on our core values, training and professional growth. We intend to continue to recruit, hire and promote employees who share this vision.

As of June 30, 2002, we had 245 full-time employees; comprised of 173 I/T project personnel, 44 employees in general and administration and 28 employees in sales and marketing. There are 6 employees in the United States, 235 employees in Pakistan, 3 in Australia and 1 in United Kingdom. None of our employees are subject to a collective bargaining agreement.

Competition

Neither a single company nor a small number of companies dominate the I/T market in the space in which the Company competes. A substantial number of companies offer services that overlap and are competitive with those offered by NetSol. Some of these are large industrial firms, including computer manufacturers and computer consulting firms that have greater financial resources than NetSol and, in some cases, may have greater capacity to perform services similar to those provided by NetSol.

Some of the competitors of the Company are International Decisions Systems, Mchugh Systems, EDW, Data Scan, KPMG, CrestSoft, Systems Limited, Cybernet, Tenhill, SouthPac Australia and a few others. These companies are scattered worldwide geographically. In terms of offshore development, we are in competition with some of the Indian companies such as Wipro, HCL, TCS, InfoSys, Satyam, Infoway and others. Many of the competitors of NetSol have longer operating history, larger client bases, and longer relationships with clients, greater brand or name recognition and significantly greater financial, technical, and public relations resources than NetSol. Existing or future competitors may develop or offer services that are comparable or superior to ours at a lower price, which could have a material adverse effect on our business, financial condition and results of operations.

Customers

Some of the customers of NetSol include Daimler Chrysler Finance Singapore; Mercedes Benz Leasing Thailand; Debis Portfolio Systems, UK and Mercedes Benz Finance Australia; Yamaha Motors-Australia. In addition, NetSol provides off shore development and customized I/T solutions to blue chip customers such as Citibank, Pakistan; VoiceStream Wireless, USA; BSAF Games, USA; Leverage Consulting, USA; OPSION Medical, USA; Askari Bank, Pakistan. Only one of our customers accounted for 11% of our revenues during fiscal year 2002.

The Internet

The Company is committed to regaining and extending the advantages of its direct model approach by moving even greater volumes of product sales, service and support to the Internet. The Internet provides greater convenience and efficiency to customers and, in turn, to the Company. The Company receives 150,000 hits per month to www.netsoltek.com.

Through its Web site, customers, potential customers and investors can access a wide range of information about the Company s product offerings, can configure and purchase systems on-line and can access volumes of support and technical information about the Company.

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Operations

The Company s headquarters are in Calabasas, California. In its effort to cut costs, the Company continues to be responsible for its investor relations and public relations in-house. Nearly 75% of the production and development is conducted at NetSol in Lahore, Pakistan. The other 25% of development is conducted in the Proximity Development Center or PDC in the US. The majority of the marketing is conducted through NetSol USA, NetSol eR and Abraxas who also service and support the clients in Europe and USA. NetSol PK services and supports the customers in the Asia Pacific and South Asia regions. A significant portion of the software is developed in Pakistan. Despite of the global unrest, regional tension and downturn in the US markets, the economy of Pakistan is bouncing back. For the first time in the history of Pakistan, the foreign exchange reserve has exceeded $8.2 billion in comparison with just below $2.0 billion in 2000. The stock market in Pakistan is the most bullish in the Asia Pacific region with market growth over 87% year to date (Karachi Stock Exchange on October 18, 2001 was at 1,103 points vs. 2,067 points on October 9, 2002). Pakistan, now a close US ally, is recognized by the western world as becoming very conducive and attractive for foreign collaboration and investments. The Company is in an extremely strong position to continue to use this offshore model which includes competitive price advantage to serve its customers.

NetSol USA (comprising NetSol eR in Calabasas and NetSol USA in Virginia) functions as the service provider for the US based customers both in the consulting services area as well as in the project management. In addition, the Virginia office provides greater access to the emerging markets on the East Coast. Both NetSol USA and NetSol eR are exploring opportunities for marketing alliances with local companies to reduce its marketing expenditure.

Organization

NetSol Technologies, Inc. (formerly NetSol International, Inc.) was founded in 1997 and is organized as a Nevada corporation. The Company amended its Articles of Incorporation on March 20, 2002 to change its name to NetSol Technologies, Inc.

The success of the Company in the near term will depend, in large part, on the Company s ability to (a) minimize additional losses in its operations; (b) raise funds for continued operations and growth; and (c) enhance and streamline sales and marketing efforts the United States, Asia Pacific region, Pakistan, Japan and Australia. However, management s outlook for the continuing operations, which has been consolidated and is being streamlined in recent months, remains optimistic. With continued emphasis on a shift in product mix towards the higher margin consulting services, the Company anticipates to be able to improve operating results at its core by reducing costs and improving gross margins.

In the event NetSol needs additional financing, there can be no assurance that any such financing will be available on acceptable terms. If such financing is not available on satisfactory terms, NetSol may be unable to expand its business or develop new customers as desired and our operating results may be adversely affected. Debt financing will increase expenses and must be repaid regardless of operating results. Equity financing could result in dilution to existing stockholders.

Some of the more prominent known risks and uncertainties of NetSol s business are set forth below. However, this section does not discuss all possible risks and uncertainties to which NetSol and its businesses are subject, nor can it be assumed that there are not other risks and uncertainties which may be more significant.

Such other factors include, among others, those described in the Business section and elsewhere in Management s Discussion and Analysis and those factors listed below. Some of those factors will change with the sale of the operations described elsewhere herein.

Risk Factors

The following important factors, among others, could cause our actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-KSB or presented elsewhere by management from time to time.

WE HAVE RECEIVED A GOING CONCERN OPINION FROM OUR AUDITORS INDICATING THERE IS DOUBT AS TO WHETHER WE CAN REMAIN IN BUSINESS.

In its audit report dated September 23, 2002, our auditors indicated that there was substantial doubt as to our ability to continue as a going concern and that our ability to continue as a going concern was dependant upon our obtaining sufficient additional financing for our operations or reaching profitability. We cannot assure you that we will be able to generate internally or raise sufficient funds to continue our operations, or that our auditors will not issue another going concern opinion. Our failure to raise sufficient additional funds, either through additional financing or continuing operations, will have a material adverse effect on our business and financial condition and on our ability to continue as a going concern.

THE COMPANY MAY NOT BE ABLE TO REALIZE THE BENEFIT OF ITS STRATEGIC RESTRUCTURING PLAN

While the Company is confident of its ability to realize the benefits of the strategic restructuring plan, the level of benefits to be realized could be affected by a number of factors including, without limitations, (a) the Company s ability to raise sufficient funds, (b) to close down the ineffective operations of the Company, (c) to operate the Company as planned without further shareholder hostile takeover interruptions, and (d) to tolerate and stabilize during the changes in the US market in the technology industry (e) react effectively to the global political and business effects of the events of September 11, 2001 in the United States.

IF REGIONAL HOSTILITIES OR TERRORIST ATTACKS INCREASE, OUR BUSINESS COULD SUFFER AND THE PRICE OF OUR EQUITY SHARES AND OUR REVENUES COULD GO DOWN.

Pakistan has from time to time experienced social and civil unrest and hostilities with neighboring countries and is currently involved diplomatically in stabilizing the Pakistan, Afghanistan and Indian region. In recent years, there have been military confrontations between India and Pakistan in the Kashmir region. 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 our business, our future financial performance and the price of our equity shares and our revenues. This is important in the current context, as the terrorist attacks in the US in September 2001 have affected the markets all over the world. The possible prolonged battle against terrorism by the US could lengthen these regional hostilities and tensions thereby affecting the Pakistani economy as well as our business, our future financial performance, our stockholders equity and the price of our equity shares and our revenues.

INTERNATIONAL EXPANSION OF OUR BUSINESS COULD RESULT IN FINANCIAL LOSSES DUE TO CHANGES IN FOREIGN POLITICAL AND ECONOMIC CONDITIONS OR FLUCTUATIONS IN CURRENCY AND EXCHANGE RATES

We expect to continue to expand our international operations. We currently have offices in Pakistan and Australia. We have limited experience in marketing, selling and providing our services internationally. International operations are subject to other inherent risks, including:

- political uncertainty in Pakistan and the South-East Asian Region, particularly in light of the events in the United States on September 11, 2001.
- recessions in foreign countries;
- fluctuations in currency exchange rates;
- difficulties and costs of staffing and managing foreign operations;
- reduced protection for intellectual property in some countries;
- political instability or changes in regulatory requirements or overthrowing the current government in the foreign countries; and
- U.S. imposed restrictions on the import and export of technologies.

WE DEPEND HEAVILY ON A LIMITED NUMBER OF CLIENT PROJECTS AND THE LOSS OF ANY WOULD ADVERSELY AFFECT OUR OPERATING RESULTS

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of clients for whom we perform large projects. During the year ended June 30, 2002, one customer accounted for approximately 11% of net revenues. The loss of any principal client for any reason, including as a result of the acquisition of that client by another entity, could have a material adverse effect on our business, financial condition and results of operations.

IF ANY CLIENT UNEXPECTEDLY TERMINATES THEIR CONTRACTS WITH US OUR BUSINESS COULD BE ADVERSELY AFFECTED

Our clients, with limited advance notice and without significant penalty, can cancel some of our contracts. Termination by any client of a contract for our services could result in a loss of expected revenues and additional expenses for staff, which were allocated to that client s project. The cancellation or a significant reduction in the scope of a large project could have a material adverse effect on our business, financial condition and results of operations.

THE MARKET PRICE OF OUR COMMON STOCK FLUCTUATES SUBSTANTIALLY. YOU MAY BE UNABLE TO SELL YOUR COMMON STOCK QUICKLY AT THE CURRENT MARKET PRICE.

The market price of our common stock has been highly volatile and will likely fluctuate significantly. Attempts to purchase or sell relatively small amounts of our common stock could cause the market price of our common stock to fluctuate significantly. Low trading volume levels may also affect our stockholders ability to sell shares of our common stock quickly at the current market price. In addition, sales of substantial amounts of our common stock, or the perception that such sales could occur, would adversely affect the prevailing market prices for our common stock. In addition, OTC Bulletin Board or Nasdaq equity securities trading under five dollars ($5.00) per share which fail to meet certain minimum net tangible asset or average revenue criteria are subject to the requirements of the rules relating to Penny Stocks under Section 15(g) of the Exchange Act, which impose additional disclosure requirements upon broker-dealers in connection with any trades involving such stock. Such securities may also become subject to Rule 15g-9 under the Exchange Act, which imposes certain sales practice requirements upon broker-dealers involving the suitability of customers to buy the stock. The additional burdens imposed upon broker-dealers should our common stock become subject to such requirements could discourage them from effecting transactions in our common stock and/or affect their ability to effect such transactions. In such event, the market liquidity of our common stock could be materially adversely affected.

DELISTING FROM NASDAQ SMALL CAP

Nasdaq has commenced delisting of companies whose stock trades at less than $1.00 for a period of 30 consecutive trading days unless the company can qualify under the Initial Listing Criteria for the Nasdaq Small Cap Market under Marketplace Rule 4319(c)(2)(A). In that case, the company would be granted an additional 180-calendar days grace period to demonstrate compliance. The staff at Nasdaq has informed the Company on August 13, 2002, that the Company has an additional 180 calendar days to demonstrate compliance. If the Company is unable to do so, it may be delisted from Nasdaq Small Cap and it will trade on the Over-the-counter Bulletin Board.

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OUR STOCK PRICE IS VOLATILE AND MAY RESULT IN SUBSTANTIAL LOSSES FOR INVESTORS

The trading price of our common stock could be subject to wide fluctuations in response to:

- quarterly variations in operating results and our achievement of key business metrics;
- changes in earnings estimates by securities analysts;
- any differences between reported results and securities analysts published or unpublished expectations;
- announcements of new contracts or service offerings by us or our competitors;
- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;
- general economic or stock market conditions unrelated to our operating performance;
- In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of their securities. This type of litigation could result in substantial costs and a diversion of management attention and resources;
- Demand for its services and products; and
- Delisting from Nasdaq Small Cap and trading on Over-the-Counter Bulletin Board.

IF WE DO NOT KEEP PACE WITH TECHNOLOGICAL CHANGES, OUR COMPETITIVE POSITION WILL SUFFER

Our markets and the technologies used in our solutions are characterized by rapid technological change. Failure to respond in a timely and cost-effective way to these technological developments would have a material adverse effect on our business, financial condition and results of operations. We expect to derive a substantial portion of our revenues from providing software that is based upon leading technologies and that is capable of adapting to future technologies. As a result, our success will depend on our ability to offer services that keep pace with continuing changes in technology, evolving industry standards and changing client preferences. We may not be successful in addressing future developments on a timely basis. Our failure to keep pace with the latest technological developments would have a material adverse effect on our business, financial condition and results of operations.

IF WE DO NOT ATTRACT AND RETAIN QUALIFIED PROFESSIONAL STAFF, WE MAY NOT BE ABLE TO ADEQUATELY PERFORM OUR CLIENT ENGAGEMENTS, WHICH COULD LIMIT OUR ABILITY TO ACCEPT NEW CLIENT ENGAGEMENTS

Our business is labor intensive and our success depends in large part upon our ability to attract, retain, train and motivate highly skilled employees. Because of the rapid growth in the I/T sector, there is intense competition for employees who have data modeling, creative application design, technical and program management experience. In addition, the Internet has created many opportunities for people with the skills we seek to form their own companies or join startup companies and these opportunities frequently offer the potential for significant future financial profit through equity incentives, which we cannot match. We may not be successful in attracting a sufficient number of highly skilled employees in the future, or in retaining, training and motivating the employees we are able to attract. Any inability to attract, retain, train and motivate employees could impair our ability to adequately manage and complete existing projects and to bid for or accept new client engagements.

WE FACE SIGNIFICANT COMPETITION IN MARKETS THAT ARE NEW AND RAPIDLY CHANGING

The markets for the services we provide are highly competitive. We believe that we currently compete principally with strategy consulting firms, Internet professional services firms, systems integration firms, software developers, technology vendors and internal information systems groups. Many of the companies that provide services in our markets have significantly greater financial, technical and marketing resources than we do and generate greater revenues and have greater name recognition than we do. In addition, there are relatively low barriers to entry into our markets and we have faced, and expect to continue to face competition from new entrants into our markets.

We believe that the principal competitive factors in our markets include:

- ability to integrate strategy, experience modeling, creative design and technology services;
- quality of service, speed of delivery and price;

industry knowledge;

sophisticated project and program management capability; and

Internet technology expertise and talent.

We believe that our ability to compete also depends in part on a number of competitive factors outside our control, including:

the ability of our competitors to hire, retain and motivate professional staff;

the development by others of Internet services or software that is competitive with our solutions; and

the extent of our competitors responsiveness to client needs.

There can be no assurance that we will be able to compete successfully in our markets.

IF WE ARE UNABLE TO PROTECT OUR PROPRIETARY SOFTWARE, OUR BUSINESS COULD BE ADVERSELY AFFECTED

Our success depends, in part, upon our proprietary software and other intellectual property rights. We rely upon a combination of trade secrets, nondisclosure and other contractual arrangements, and copyright and trademark laws to protect our proprietary rights. We enter into confidentiality agreements with our employees, generally require that our consultants and clients enter into these agreements, and limit access to and distribution of our proprietary information. There can be no assurance that the steps we take in this regard will be adequate to deter misappropriation of our proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. In addition, although we believe that our services and products do not infringe on the intellectual property rights of others, there can be no assurance that infringement claims will not be asserted against us in the future, or that if asserted that any infringement claim will be successfully defended. A successful claim against us could materially adversely affect our business, financial condition and results of operations.

WE MAY NOT HAVE THE RIGHT TO RESELL OR REUSE SOFTWARE DEVELOPED FOR SPECIFIC CLIENTS

A portion of our business involves the development of software for specific client engagements. Ownership of these solutions is the subject of negotiation and is frequently assigned to the client, although we may retain a license for certain uses. Some clients have prohibited us from marketing the software developed for them for specified periods of time or to specified third parties and there can be no assurance that clients will not demand similar or other restrictions in the future. Issues relating to the ownership of and rights to use solutions can be complicated and there can be no assurance that disputes will not arise that affects our ability to resell or reuse these solutions. Any limitation on our ability to resell or reuse a solution could require us to incur additional expenses to develop new solutions for future projects.

WE ARE DEPENDENT ON OUR KEY PERSONNEL

Our success will depend in large part upon the continued services of a number of key employees, including Messrs. Salim Ghauri and Naeem Ghauri. The loss of the services of either of these or of one or more of our other key personnel could have a material adverse effect on our business, financial condition and results of operations. In addition, if one or more of our key employees resigns from NetSol to join a competitor or to form a competing company, the loss of such personnel and any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on our business, financial condition and results of operations. In the event of the loss of any personnel, there can be no assurance that we would be able to prevent the unauthorized disclosure or use of our technical knowledge, practices or procedures by such personnel.

TERRORIST ATTACKS, SUCH AS THE ATTACKS THAT OCCURRED IN NEW YORK AND WASHINGTON, D.C., ON SEPTEMBER 11, 2001, AND OTHER ATTACKS OR ACTS OF WAR MAY ADVERSELY AFFECT THE MARKETS ON WHICH OUR COMMON STOCK TRADES, THE MARKETS IN WHICH WE OPERATE, OUR OPERATIONS AND OUR PROFITABILITY.

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. The attacks and 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 our physical facilities and operations, which are located in North America, Australia and the Middle East, or those of our clients. Furthermore, the recent terrorist attacks and future developments may result in reduced demand from our clients for our services or may negatively impact our clients ability to outsource. These developments will subject our worldwide operations to increased risks and, depending on their magnitude, could have a material adverse effect on our business and your investment.

A COMMITTEE OF CREDITORS COULD FORCE THE COMPANY INTO INVOLUNTARY BANKRUPTCY

As result of the proxy contest initiated by the Shareholders Group LLC in May of 2001, the Company incurred expenses in excess of $500,000. Currently, the Company has been able to negotiate with each creditor and make payments, however, in the event the Company is unable to continue with such payments, a committee of creditors may force the Company into involuntary bankruptcy.

ITEM 2 - PROPERTIES

The Company moved from its 4,690 square feet offices to its new headquarters in Calabasas, California with its subsidiary NetSol eR, Inc., in October 2002. The move was made to cut costs and expenses since the former lease cost the Company approximately $13,000 per month. The new facilities, which house NetSol eR and NetSol, are approximately 1,575 rentable square feet and the monthly rent for both NetSol eR and NetSol is $2,363.50 per month. The lease is on a month-to-month bases and the Company has paid in advance for six months. The term of the Company s prior lease was for seven years; however, the Company was able to negotiate with the landlord to terminate that lease and has no further obligations to the landlord on that lease. The current facilities are located at 24011 Ventura Boulevard, Suite 101, Calabasas, CA 91302.

Other leased properties as of the date of this report are as follows:

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Location/Approximate Square Feet		Purpose/Use
Australia Facility	1,250	Computer and General Office
Pakistan Facility	30,000	Computer and General Office
United Kingdom	2,400	General Office (Closed down as of January 2002)
Virginia	300	General Office

Upon expiration of its leases, the Company does not anticipate any difficulty in obtaining renewals or alternative space. Lease expiration dates range from fiscal 2002 through 2004.

Technology Campus

The Company broke ground for its Technology Campus in January 2000 with a three phase plan of completion. Initially, the Company anticipated the completion of Phase One by fall 2000, but due to the delay in financing activities, the completion is expected now sometime in 2003. Phase One of construction is over 80% complete. This phase alone will accommodate up to 600 IT professionals. By relocating the entire Pakistan operation from its current leased premises to the Campus, the Company would save approximately $150,000 annually. Once fully operational and completed, the campus is expected to house over 3,000 I/T professionals and is approximately three acres in size. The campus site is located in Pakistan s second largest city, Lahore, which has a population of six million. An educational and cultural center, the city is home to several leading universities of Engineering and Technology and *FAST*, the largest computer research and training institute in Pakistan. The city is also the home of The University of Punjab founded in 1882, the oldest university in Pakistan. The Company is making this investment to attract contracts and projects from blue chip customers from all over the world. This campus will be the first purpose built software building with state of the art technology and communications infrastructure in Pakistan. NetSol selected this site after careful consideration and research of the long-term benefits of the location and return on investment. Due to the fast growth of technology business in Pakistan, the city of Lahore is fast becoming the Silicon Valley of Pakistan. Just recently quite a few multi-national IT related firms have launched their presence in Lahore. NetSol is making this investment to ultimately attract much bigger contracts and projects from the major and blue chips customers from all over the world. This campus will be the first and fully dedicated software building with state of the Art technology and communications infrastructure.

There are over eight universities and technology schools that NetSol visits to build its employee pool from. In addition, there is a new airport being constructed only 2.7 kilometers from the technology campus. The campus is estimated to cost approximately three million dollars and it will consist of three buildings to house all the IT professionals. The campus will have offices, a training center, a cafeteria, a gym and a few resting quarters for the employees. To the best knowledge of the Company there are no other technology campuses that are in existence in Lahore. Since the building is in the construction stage, there is no issue of insurance.

ITEM 3 - LEGAL PROCEEDINGS

1. The Company was served with a lawsuit filed in Superior Court of California, Los Angles County (West District) by Allied Interstate, Inc. (Allied) on May 23, 2002, for damages incurred as a result of breach of contract and related claims based upon the alleged failure to pay involving a stock repurchase agreement with SuperNet. Allied is seeking damages in excess of $60,000.00. The Company has filed a response to Allied s lawsuit. The Court has ordered mediation to take place prior to February 13, 2003. NetSol is hopeful that the mediation will result in a successful resolution of this case, and if it does not, the Allied s lawsuit will be vigorously defended and the Company hopes to win on the merits of its case.

2. 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.

3. On July 26, 2002, the Company was served with a Request for Entry of Default by Surrey Design Partnership Ltd. (Surrey). In Surrey s Complaint for Damages which was 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.

4. On April 29, 2002, Kilroy Realty L.P. filed an unlawful detainer action against the Company for unpaid rent. The parties entered a Stipulation to Entry of Judgment on July 10, 2002 whereby the rent owed by the Company would be taken out of a Letter of Credit held by Kilroy and the rent from August 2002 to February 2003 would be paid from the letter of credit with a promise by the Company to replenish the letter of credit in February. Kilroy did not draw on the letter of credit and on September 26, 2002, the Parties agreed to terminate the lease and NetSol agreed to pay $70,000 for the back rent owed to Kilroy. This matter is closed.

5. A Nevada state court placed the Company into a Receivership on June 19, 2001 as a result of a proxy contest by a group of shareholders. Ultimately, the Court invalidated their actions and the shareholders group disbanded their actions and dissolved their group; whereupon, the court removed the Receiver from the Company on August 3, 2001 and returned full control of NetSol to the incumbent Board of Directors and management.

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

None.

PART II

ITEM 5 - MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS; RECENT SALES OF UNREGISTERED SECURITIES

(a) MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION Common stock of NetSol Technologies, Inc. is listed and traded on NASDAQ Small Cap under the ticker symbol NTWK.

The table shows the high and low intra-day prices of the Company s common stock as reported on the composite tape of the NASDAQ for each quarter during the last two fiscal years.

	2002		2001	
Fiscal Quarter	High	Low	High	Low
1st (ended September 30)	2.15	0.16	35.00	11.31
2nd (ended December 31)	0.46	0.15	15.25	4.00
3rd (ended March 31)	0.41	0.20	8.875	2.375
4th (ended June 30)	0.27	0.09	6.00	0.625

RECORD HOLDERS As of October 4, 2002, the number of holders of record of the Company s common stock was 125. As of October 4, 2002, there were 19,445,499 shares of common stock issued and outstanding.

DIVIDENDS The Company has not paid cash dividends on its Common Stock in the past and does not anticipate doing so in the foreseeable future. The Company currently intends to retain future earnings, if any, to fund the development and growth of its business.

(b) RECENT SALES OF UNREGISTERED SECURITIES

The Company conducted three private raises in fiscal year 2002:

The Company sold 504,849 shares of its restricted Rule 144 common stock in the amount of $98,000 through private placement offerings during the quarter ended March 31, 2002 pursuant to Rule 506, of Regulation D of the Securities and Exchange Act of 1933. The class of investors to which the Company sold shares to was accredited investors .

During December 2001 through March 1, 2002, the Company issued and sold 186,667 shares of common stock for aggregate gross proceeds of $28,000 in a private placement under Rule 506, Regulation D of the Securities and Exchange Act of 1933. The class of investors to which the Company sold shares to was accredited investors .

On December 7, 2001, the Company entered into a new funding and business development alliance with Red Sea, Ltd., a private investment company, investing in small cap technology businesses. The agreement was for the purchase of 2,000,000 restricted Rule 144 shares and 1,000,000 warrants at an average price of $0.38. The shares and the underlying shares of the warrants would be restricted for a period of one year. Red Sea, Ltd. paid a total of $70,000 to the Company but failed to provide the rest of the contracted amount within the time frame required. Based on Red Sea s breach of the Agreement, NetSol terminated the contract issuing a total of 318,182 restricted shares for the amount paid.

ITEM 6 - MANAGEMENT S DISCUSSION AND ANALYSIS

The Company s objective is to maximize stockholder value by executing a strategy that focuses on a balance of three priorities: growth, profitability and liquidity. The following discussion highlights the Company s performance in the context of these priorities. This discussion should be read in conjunction with the Consolidated Financial Statements, including the related notes.

By the end of the fiscal year June 30, 2002, as result of the actions prompted by the dissident NetSol Shareholders Group, LLC (Shareholders Group), the Company s management had regained control of the offices in August 2001. The departure of the Receiver at the same time allowed the management to focus successfully on continued delivery of programming and support resources to our customers and ensure that the customers and employees of NetSol maintain their relationship with the Company. Through the fiscal 2002, the Company has continued to feel the after effects of the invalid takeover attempt of the Shareholders Group in June 2001. This, combined with the September 11 attacks, had a profound impact on the Company s ability to execute on its business plan. The areas that suffered the most are: valuation of the stock price, hampered ability to raise financing in the public markets, and legal actions initiated by certain business affiliates as our ability to deliver on commitments was compromised. The management s key challenge is to put the Company on the road to recovery and, eventually, profits. This has to be achieved against a backdrop of a severe downturn in demand for IT products and services. The management is up to the challenge and undertook key initiatives in the following areas: major cost reductions world wide, consolidation of offices and product lines, closure and divestment of non-core businesses such as the UK and the German operations and the downsizing employee headcount by over 35% from nearly 400 employees to 245 worldwide. In addition, the senior management in the Pakistan subsidiary reduced their salaries by over 25%, while the US based senior management either deferred their salaries or simply converted their salaries to exercise stock options in lieu of their cash pay. In addition, nearly $400,000 cash was injected by at least 100 employees worldwide by way of exercising their stock options.

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The parent company has contributed in the cost cutting drive. Corporate overheads have been reduced by over 50% of its normal operating costs in 2002. This was accomplished by eliminating certain senior level positions, drastic reduction in IR/PR expenses by in-house sourcing and reduction in general administrative expenses. In September 2002, the management was able to negotiate a mutual release from their seven year lease of its offices in Calabasas. The Company was able to negotiate with the landlord to terminate that lease. The new offices are leased on a month to month basis and is 1,575 square feet compared to prior office space of 4,690 square feet. The rent for the new space is $2,363.50 per month as compared to almost $13,000 per month for our prior office space.

Management continues to be focused on building its delivery capability and has achieved key milestones in that respect. Key projects are being delivered on time and on budget, quality initiatives are succeeding, especially in maturing internal processes. The Lahore facility was able to achieve CMM Level 2 assessment, as the first software house in Pakistan to achieve this assessment. The Lahore subsidiary was told that it would easily qualify for CMM level 3 and to skip that qualification and seek CMM level 4 assessment in the near future. The Lahore subsidiary is currently in the process of obtaining its CMM level 4 assessment.

The Company has undertaken many new initiatives for business development in the Asia Pacific region, UK and North America. Against a global downturn in the technology sector, NetSol has been able to secure new projects both in Pakistan and in Asia Pacific regions. Despite its new marketing endeavors in early 2002, the Company was unable to secure any new business in the US in 2002. Faced with the bearish public market sentiment in the US, the Company scaled down efforts both in marketing and business development in the US and decided to explore the emerging and more active markets in the Asia Pacific and UK Regions.

The Company s stock has been volatile, as a result we have been unable to secure any major financing. Conversely, the stock market in Pakistan is extremely bullish (Karachi Stock Exchange gained 87% from October 2001 to October 2002). NetSol has taken this opportunity to explore options taping into the Pakistani market for new equity based financing. We have seen good progress with this initiative and are confident that there are possibilities of major institutions investing in a matured IT company such as NetSol. NetSol, a seven year old software company in Pakistan, commands great respect and has a well-established brand name. The management is optimistic that it could open this new source of funding over the next few quarters.

PERFORMANCE OF NETSOL USA AND NETSOL ER

Compared to fiscal 2001, the gross revenues for NetSol USA and NetSol eR were lower by approximately 57% which is mainly due to a severe downturn in the US technology spending. The Company s management continues to face resistance from existing and potential customers to sign new projects. In September 2002, the management made a decision to curtail new business development and marketing expenditure to reflect the current state of the technology sector. Our objective is to sustain the operation with reduced overheads during the downturn. We are, however, looking at new alliances and partnerships, where we do not have to incur upfront marketing costs by revenue sharing with other lead contractors. These tactical moves are warranted by the challenges in the IT services sector and does not change our core business model where we aim to be the lead contractor in a majority of business that we are able to gain.

CASH RESOURCES

The Company continues to work with a limited amount of working capital. The Company relies upon its creditors to agree on accepting deferred payments until the total debt is discharged. The Company also relies upon a close group of insiders and other shareholders to continue to invest in the company from time to time through various private placement offerings. The management has so far to successfully work on both these fronts to ensure adequate cash is available to meet its commitments.

The management believes subsequent to June 30, 2002 the liquid position of the company has improved significantly due to settlement with Kilroy Property, the Company s prior landlord, for the previous office space. The addition of new contracts in the Asia Pacific region in fiscal year 2003 will improve the liquidity and working capital position as we start generating the invoices from these new customers.

CHANGE IN MANAGEMENT

During the fiscal year, Syed Husain, the Chief Operating Officer (COO) and Rick Poole, the Chief Financial Officer (CFO) left the Company. Najeeb Ghauri has been appointed CFO, Secretary in addition to his role of Vice Chairman of the Board of Directors.

THE COMMITMENT OF THE MANAGEMENT AND EMPLOYEES

NetSol s existing employees and management continue to show their loyalty and support to the Company. In spring and summer of 2002, the Company decided to cut costs and a number of executives and employees left the Company. However, the remaining teams of executives and employees have shown a great deal of loyalty and commitment by helping to re-build the Company as they continue to invest into the Company by way of exercising their option grants and defer some salaries.

BUSINESS DEVELOPMENT

The Company has been able to refocus its business development activities by enhancing its marketing teams in Asia Pacific Region. In 2002 six more senior level marketing personnel were added to cover the markets of Asia Pacific. New contracts were added due to this initiative. In the US similar efforts were made but the results have been unimpressive, primarily due to the overall slump in the technology sector.

RESULTS OF OPERATIONS

THE YEAR ENDED JUNE 30, 2002 COMPARED TO THE YEAR ENDED JUNE 30, 2001

Net revenues for the year ended June 30, 2002 were $3,578,113 as compared to $6,726,836 for the year ended June 30, 2001. Net revenues is broken out among the subsidiaries as follows:

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	2002	2001
Network Solutions PK, NetSol Private PK, NetSol Connect	$1,931,639	$2,922,088
Abraxas	192,655	222,612
NetSol UK	-0-	1,038,261
NetSol eR, NetSol USA and Intereve Corporation	1,453,819	2,543,875
Total Net Revenues	$3,578,113	$6,726,836

The total consolidated net revenue for fiscal year 2002 was $3,578,113 compared to $6,726, 836 in fiscal year 2001. This is a 47% decline in revenue, which could be directly attributed to the downturn in technology sector worldwide. The operating loss of operations was $5,778,924 including a depreciation & amortization charge of $2,115,399. The loss also includes settlement expenses of $549,860 for the UK and German entities. The total loss of operations including the above mentioned non-cash charges was $5,778,924, which is a significant reduction of 63% from $15,479,779 in fiscal year 2001. The net loss in 2002 was $5,998,864 against $14,049,942 in FY 2001 or 57% reduction. Similarly the net loss per share dropped to $0.40 in 2002 against $1.25 in 2001. The total weighted average of shares outstanding basic and diluted was approximately 15.0 million in 2002 against 11.2 million in 2001.

The Company experienced a revenue decrease from the prior year for its North American operations. The Company is aligning itself with the current reduction in demand for its services in the US markets. This has been achieved by laying off 10 employees from its US operations and by downsizing the company s office space in Virginia and Calabasas, resulting in major cost reductions. Since August 1999, NetSol USA has generated a total of $3,809,909 of revenues.

NetSol PK was able to add some new customers to its list such as Citibank Pakistan ICI Dulux Pakistan and other local customers. As the suite of Leasing and Finance products mature, we are confident that the loss of revenue from discontinued operations and the IT Services business will be gradually compensated by selling more of our proprietary products in the US and the Far East. Our Australian subsidiary, Abraxas, has key software products, which are being developed in our NetSol PK development facility, which will be marketed in Australia as well as other markets. These products are targeted towards the banking, insurance and leasing and finance industries. Management believes that the prospects for the future of Abraxas are to have modest sales growth, anticipating being able to leverage on an enhanced product line and by expanding its customer base. The Company believes that a modest sales growth for its operating subsidiaries for fiscal 2002 is reasonable based upon its ability to further penetrate the IT market.

Operating expenses were $6,395,427 for the year ended June 30, 2002 as compared to $18,076,642 for the year ended June 30, 2001. During the years ended June 30, 2002 and 2001, the Company issued 815,000 and 53,017 restricted common shares in exchange for services rendered, respectively. The Company recorded this non-cash compensation expense of $116,995 and $114,594 for the years ended June 30, 2002 and 2001, respectively. Total professional service expense, including non-cash compensation, was $964,508 and $2,333,425 for the years ended June 30, 2002 and 2001, respectively. During the years ended June 30, 2002 and 2001, the Company recorded depreciation and amortization expense of $2,115,399 and $1,509,624, respectively. Operating expenses in total, including all general and administrative expenses, have also decreased as a result of reduction in salaries and related costs primarily due to reduction in staff at all levels of the Company and the continued monitoring of the Company s infrastructure, both at the parent and the subsidiary levels. The main reason for the decrease is due to the absence of three nonrecurring specific items from fiscal 2001: foreign currency remeasurement loss of $1,297,773, impairment loss of $6,128,755 and bad debt expense of $1,569,541. The foreign currency remeasurement loss was due to the remeasurement of intercompany loan balances between the Company and its foreign subsidiaries in the fourth quarter. These remeasured loan balances were converted into permanent equity as of June 30, 2001. The impairment loss was a result mainly due to the write down of the intangible assets resulting from the acquisitions of the operations in Pakistan and UK. The remaining net book value of the Company s intangible assets is being amortized over a period of five years. This is reflected as a change in accounting estimate beginning in the fourth quarter of fiscal 2001. Bad debt expense of $1,569,541 has been recorded in 2001 based upon the Company s customers being negatively affected by the overall economic slowdown, and to an extent the cancellation of certain contracts that were in progress as a result of the invalid insurgent Shareholder Group action. The Company is confident that the accounts receivable balance as of June 30, 2002 will provide a good source of working capital heading into fiscal 2003. These three specific items are all non-cash expenses or charges in nature. Salaries and wages expenses were $1,461,157 and $2,512,801 for the years ended June 30, 2002 and 2001, respectively. General and administrative expenses were $1,135,663 and $2,347,140 for the years ended June 30, 2002 and 2001, respectively. Gross Profit was 17% of revenues in fiscal 2002, compared to 39% in fiscal 2001. Net loss was $5,998,864 or $0.40 per share (basic and diluted) for the year ended June 30, 2002 as compared to $14,049,942 or $1.25 per share (basic and diluted) for the year ended June 30, 2001. This resulted in a loss per share, basic and diluted, from continuing operations of $1.12 for fiscal 2001 as compared with $0.40 for fiscal 2002. The loss per share for discontinued operations was $0.13 for fiscal 2001.

The Company s cash position was $801,348 at June 30, 2002. This is presented on the audited financial statements as $86,914 as cash and cash equivalents, and a total $714,434 as certificates of deposit, which is included in other assets.

Income Taxes

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets generated by the Company or any of its subsidiaries are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets resulting from the net operating losses are reduced in part by a valuation allowance.

Going Concern Qualification

The Company s independent auditors have included an explanatory paragraph in their report dated September 23, 2002 on the June 30, 2002 consolidated financial statements discussing issues which raise substantial doubt about the Company s ability to continue as a going concern. The going concern qualification is attributable to the Company s historical operating losses, the Company s lack of cash reserves and capital, and the amount of capital which the Company projects it needs to satisfy existing liabilities and achieve profitable operations. In positive steps, the Company has closed down its loss generating UK entities, disposed of its German subsidiary, and is continually evaluating cost cutting measures at every entity level. The Company is optimistic that the remaining entities can become profitable in fiscal 2003. For the year ended June 30, 2002, the Company continued to experience a negative cash flow from consolidated operations, and projects that it will need certain additional capital to enable it to continue operations at its current level beyond the near term. The Company believes that certain of this needed capital will result from the successful collection of its accounts receivable balances as projects are completed during the coming fiscal year. The Company believes it can raise additional funds through private placements of its common stock.

Liquidity And Capital Resources

As of June 30, 2002 the Company s working capital (current assets less current liabilities) totaled a deficit of $2.7 million, an increase in deficit from $2.1 million as of June 30, 2001. Compared to Fiscal 2001, the deficit in Company s working capital increased by $0.6 million as a direct result of lower revenues by 47%, a number of additional costs were related to the invalid takeover attempt by the Shareholders Group and settling of a number of litigation actions as well as costs related to closing down of operations in Germany and the UK. These costs include over $500,000 in professional fees as well as payments to the Court appointed Receiver. The hostile proxy contest with the Shareholders Group, which was complex and drawn out, also contributed over $500,000 to the deficit. In Fiscal 2001, the company had success in raising over $2,000,000 through a placement with Deephaven Capital placements. This type of capital raise has become increasingly difficult in the current climate in the capital markets and in fiscal year 2002 the Company had very limited success in raising capital. The Company believes, while the markets remain bearish on technology, it would be increasingly difficult to tap funding in the US markets.

On December 7, 2001, the Company entered into a stock purchase agreement with Red Sea, Ltd., a private investment company, investing in small cap technology businesses. The agreement was for the purchase of 2,000,000 restricted Rule 144 shares and 1,000,000 warrants at an average price of $0.38. Red Sea, Ltd. paid a total of $70,000 to the Company but failed to provide the rest of the contracted amount within the time frame required. Based on Red Sea s breach of the Agreement, NetSol terminated the contract issuing a total of 318,182 restricted shares for the amount paid. During the Fiscal 2002, the company raised a total of $461,249 in cash, by way of management and employees exercise of stock options. This would continue to be an important source of raising cash for the company.

Additionally, in the Fiscal 2002 the Company issued 815,000 restricted common shares in exchange for services rendered. This further reduced cash needs and compensated for some of the cash shortfall for the year.

Going forward, to alleviate cash flow and working capital deficiencies, through the first quarter and much of the second quarter of fiscal year 2003, the company plans to continue to rely upon its ability to work with its creditors, as well as raising capital through private placements and exercising of stock options by employees and management. NetSol s management team has kept strong lines of communications open with all of its business partners including vendors and customers. We believe that the unique circumstances that we faced in the proxy contest, has helped us in gaining the cooperation and understanding of a majority of our business partners. We have successfully negotiated with a number of key service providers for extended payment terms as well as some reductions in principal amounts outstanding. Customers have also been cooperative by expediting the payments of accounts receivables, as can be seen by the reduction of the accounts receivable balances in the financial statements.

The Company believes its gross margins will improve as a result of the lower cost base, thus retaining more net revenues from new projects. The Company has also frozen all new capital expenditure until further assessment and improvement of the current cash position. The company has also frozen new hiring unless related to signing of a new contract. All these measures are designed to preserve cash resources until a point that the company reaches a position of cash flow positive.

The Company expects to address the medium to longer term of its capital needs by aligning the operational cost base and the cost of sales to the recurring revenue streams and realistic growth. The reduction of the cash burn rate is one of the key challenges and one the Company is meeting head on, as discussed earlier, by aggressive cost-cutting and downsizing of the work force. The Company is continuously looking at raising equity financing at attractive levels to minimize dilution of the equity base. In this respect, the Company is looking to tap the equity markets in emerging economies such as Pakistan. The Company believes that collectively between its cash on hand and collection of its existing accounts receivables as of June 30, 2002, it will be able to sustain the global operation, until the Company produces positive cash flow or substantial new equity is raised.

Dividends and Redemption

It has been the Company s policy to invest earnings in the growth of the Company rather than distribute earnings as dividends. This policy, under which dividends have not been paid since the Company s inception and is expected to continue, but is subject to regular review by the Board of

Directors.

Inflation

The Company does not believe that the relatively moderate rates of inflation in the United States and South East Asian region in recent years have had a significant effect on its operations.

Critical Accounting Policies

The Company s accounting policies are more fully described in Note two of the Notes to the Consolidated Financial Statements, starting on page F-12. As discussed there, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and such difference may be material to the financial statements. The most significant accounting estimates inherent in the preparation of the Company s financial statements include estimates as to the appropriate carrying value of certain assets and liabilities, which are not readily apparent from other sources. Management bases its estimates on historical experience and on various assumptions, which are believed to be reasonable under the circumstances. The Company reevaluates these significant factors as facts and circumstances change. Historically, actual results have not differed significantly from the Company s estimates.

During the year ended June 30, 2002, we did not make any significant changes in, nor take any corrective actions regarding, our controls or other factors that could significantly affect these controls. We plan to conduct an evaluation of our disclosure of our controls and procedures each quarter.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangibles. SFAS No. 142 addresses the initial recognition, measurement and amortization of intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) and addresses the amortization provisions for excess cost over fair value of net assets acquired or intangibles acquired in a business combination. The statement is effective for fiscal years beginning after December 15, 2001, and is effective July 1, 2001 for any intangibles acquired in a business combination initiated after June 30, 2001. The Company is evaluating any accounting effect, if any, arising from the recently issued SFAS No. 142, Goodwill and Other Intangibles on the Company s financial position or results of operations.

Also, the FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations which establishes requirements for the removal-type costs associated with asset retirements. Management is currently assessing the impact of SFAS No. 143, which must be adopted in the first quarter of 2003. Management believes this statement has not had a material impact on NetSol s financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144, which supersedes SFAS No. 121, is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years with earlier application encouraged. Management is currently assessing the impact on NetSol s financial position and results of operations.

In April 2002, the FASB issued SFAS No. 145 Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections which eliminates an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions in addition to technical corrections to other statements. Management believes this