NETSOL TECHNOLOGIES INC
Form 10KSB
October 15, 2003

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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, 2003

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, 2003 were $3,745,386.

As of September 15, 2003, Registrant had 6,792,262 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 approximately $25,800,000. This calculation is based upon the closing sales price of $3.80 per share on September 15, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

(None)

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

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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 forward 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. The Company s focus has remained the lease and finance, banking and financial services industries. The Company operates on a global basis with locations in the U.S., Europe, East Asia and Asia Pacific. By utilizing its worldwide resources, the Company believes it has been able to deliver high quality, cost-effective I/T services. NetSol 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 Carnegie Mellon s Software Engineering Institute (SEI) Capable Maturity Model (CMM) Level 3 assessment. According to the SEI website, the CMM is a model for judging the maturity of the software process of an organization and for identifying the key practices that are required for the maturity of these processes. The software CMM has been developed by the software community with stewardship by the SEI. There are only a few software companies worldwide that have achieved SEI CMM Level 3 as of April 2003. NetSol obtained SEI CMM Level 2 assessment in 2002. According to the SEI website, www.sei.cmu/sema/pdf/sw-cmm/2003apr.pdf, the CMM levels developed by SEI in conjunction with the software industry are the highest levels of recognition for quality and best practices a software company can achieve.

COMPANY BUSINESS MODEL

The Company s business model has evolved over the past six years. NetSol now offers a broad spectrum of I/T products and I/T 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 believes its key competitive advantage is its ability to build high quality enterprise applications using its offshore development facility in Lahore, Pakistan. In fact, 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.

Achieving Software Maturity and Quality Assurance.

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 CMM level 3 assessment. Achieving this CMM level 3 required dedication by all levels of the Company.

SEI s CMM, which is organized into five maturity levels, has become a de facto standard for assessing and improving software processes. Through the CMM, SEI and the software development community have established an effective means for modeling, defining, and measuring the maturity of the processes used by software professionals. The CMM for Software describes the principles and practices underlying software process maturity and is intended to help software organizations improve the maturity of their software processes in terms of an evolutionary path from ad hoc, chaotic processes to mature, disciplined software processes. Mature processes meet standardized software engineering methods and integrable into a customer s system. Mature processes ensure enhanced product quality resulting in faster project turn around and a shortened time-to-market. In short, a mature process would, ideally, have fewer bugs and integrate better into the customer s system.

The Company has always strived to improve quality in every aspect of its business. This quality drive, based on the Company s vision, trickles from the top to the lowest levels in the organization. The Company believes that it is this quality focus that enabled the Company s software development facility to become the first ISO 9001 certified software development facility in Pakistan in 1999. This accomplishment marked the beginning of the Company s 3-year program towards achieving the higher challenges of SW-CMM.

The first step of the program was to launch a dedicated Quality Engineering team mandated with software process improvement and achieving CMM ratings. The department was provided every facility, from overseas training to complete commitment of higher management, to enable it to achieve the desired goals. Company management also made sure that everybody in the Company is committed to achieving CMM. The whole organization went through a comprehensive transformation cycle. The process included, but was not limited to, the hiring and training of key personnel in the U.S. and Pakistan, and following the standards and processes designed and instituted by the SEI of Carnegie Mellon University. The extreme focus and a major team effort resulted in a CMM level 2 assessment in March 2002. The Company was the first in Pakistan to achieve this distinction. While proud of this accomplishment, all levels of the Company continued to strive towards CMM level 3. The quality-engineering department in specific, and the Company in general, started implementing Level 3 Key Processes Areas (KPAs) in a methodical and structured manner. There were Company-wide training programs conducted by in-house personnel, local experts and foreign consultants on various topics related to defining goals, processes, interpreting KPAs and implementing them. This focus and commitment resulted in the Company achieving the CMM Level 3 in a record 16 months compared to the world average of 21 months. Upon passing the rigorous, nearly two week final assessment, conducted by Rayney Wong, SEI CMM Lead Assessor from Xerox Singapore Software Centre, Fuji Xerox Asia Pacific Pte. Ltd., the Company s development facility was granted the CMM Level 3. This is notable in that, according to SEI CMM-CBA IPI and SPA Appraisal Results, Maturity Profile April 2003, there are only 164 software development facilities in the world with SW-CMM Level 3 rating.

Professional Services.

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 I/T solutions, project/program management and I/T management consultancy, as well as other professional services, including e-business solutions.

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

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

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

The experience gained by the Company through its own software quality endeavors, has enabled the Company to offer consultancy services in the areas of Software Quality, Process Improvement, ISO Certification and SW-CMM Implementation. ISO certification and CMM services include, but are not limited to GAP Analysis against the standard ISO/CMM; Orientation Workshops; Guiding the Implementation of the plan developed after the GAP Analysis; Training on Standard Processes; Process implementation support off-site and on-site; assessment training; and assistance through the final assessment (Certification Audit for ISO).

LeaseSoft

The Company also develops advanced software systems for the asset based lease and finance industries. NetSol has developed LeaseSoft a complete integrated lease and finance package,

LeaseSoft, a robust suite of four software applications, is an end-to-end solution for the lease and finance industry. The four applications under LeaseSoft have been designed and developed for a highly flexible setting and are capable of dealing with multinational, multi-company, multi-asset, multi-lingual, multi-distributor and multi-manufacturer environments.

LeaseSoft is a result of more than 6 years of effort resulting in over 60 modules grouped in four comprehensive applications. These four applications are complete systems in themselves and can be used independently to exhaustively address specific sub-domains of the leasing/financing cycle. And, if used together, they fully automate the entire leasing / financing cycle.

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The constituent software applications are:

Credit Application Creation System (CAC). Leasesoft.CAC is a web-based point of sale system for the use of dealers brokers, agents, and sales officers to initiate credit applications. It is a web-based system and, though it can be used with equal efficiently on an intranet, the real ability is to harness the power of the Internet to book sales. LeaseSoft.CAC users create quotations and financing applications (Proposals) for their customers using predefined financial products. The application is submitted to the back office system [such as LeaseSoft.CAP] for approval. After analysis, the application is sent back to the LeaseSoft.CAC system with a final decision.

Application Processing System (CAP). LeaseSoft.CAP provides companies in the financial sector an environment to handle the incoming credit applications from dealers, agents, brokers and the direct sales force. LeaseSoft.CAP automatically gathers information from different interfaces like credit rating agencies, evaluation guides, contract management systems and scores the applications against defined scorecards. All of this is done in a very mechanized workflow culminating with credit team members making their decisions more quickly and accurately. Implementation of LeaseSoft.CAP dramatically reduces application-processing time in turn resulting in greater revenue through higher number of applications finalized in a given time. LeaseSoft.CAP is also an excellent tool to reduce probability of a wrong decision thus again providing a concrete business value through minimizing the bad debt portfolio.

Contract Activation & Management System (CAM). LeaseSoft.CAM provides comprehensive business functionality that enables its users to effectively and smoothly manage and maintain a contract with the most comprehensive details throughout its life cycle. It also provides interfaces with company banks and accounting systems. LeaseSoft.CAM also effectively maintains details of all business partners that do business with the company including, but not limited to, customers, dealers, debtors, guarantors, insurance companies and banks. A number of leasing consultants have provided their business knowledge to make this product a most complete lease and finance product. NetSol s LeaseSoft.CAM provides business functionality for all areas that are required to run an effective, efficient and customer oriented lease and finance business.

Wholesale Finance System (WFS). LeaseSoft.WFS automates and manages the floor plan/bailment activities of dealerships through a finance company. The design of the system is based on the concept of one asset/one loan to facilitate asset tracking and costing. The system covers credit limit, payment of loan, billing and settlement, stock auditing, online dealer & auditor access and ultimately the pay-off functions.

Typically, Netsol s sales cycle for these products ranges between six to twelve months. NetSol derives its income both from selling the license to use the products as well as from related software services. The related services include extensive customization, implementation, and post deployment support. 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 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. The post implementation support which usually is an agreed upon percentage of overall monetary value of the implementation then becomes an ongoing revenue stream realized on a yearly basis.

NetSol manages this sale cycle by having two specialized pools of resources for each of the four products under LeaseSoft. One group focuses on software development required for customization and enhancements. The second group comprises of LeaseSoft consultants concentrating on implementation and onsite support.

NetSol also maintains a LeaseSoft specific product website www.leasesoft.biz

Status of New Products and Services

With the announced letter of intent to acquire the Pearl Treasury System, the Company will be expanding its menu of software into banking and other financial areas.

Pearl Treasury System (PTS)

PTS was founded in 2000, and designed for use by financial institutions with treasury departments. Treasury department transactions are high revenue generating with individual deal values in the range of $10 million to over $1 billion. According to IBS Publishing, over 80 contracts for treasury systems were signed in 2002, representing approximately $155 million in revenues.

The PTS system will seamlessly handle foreign exchange and money market trading, trading in derivative products, risk management, credit control, pricing, and various interfaces for rate feeds, with one system platform. The system platform, modular in design, also allows financial institutions to purchase only the modules they require. The PTS system was developed over five years with a $4 million investment by a group of visionaries in the U.K. This group completed nearly 80% of the product and needed a stronger development and business partner who could take over completion and marketing. With the acquisition, Netsol believes that it has become that partner.

Pearl Banking Solutions (PBS) (a component of PTS) provides a complete but modular solution for front, middle and back office treasury requirements, incorporating all of the following instruments: foreign exchange; money market; long term securities; financial futures; over-the-counter derivatives; OTC options; and, exchange traded options. In addition to this total coverage, a unique selling point of PTS is the flexibility of incorporating new instruments as they arise. PTS is a highly sophisticated, totally integrated treasury product operating in real time. It has been specified and designed by Noel Thurlow, a leading authority in investment banking, to provide total treasury management. Advanced technology and innovative architecture provide the system with a comprehensive set of functions and complete flexibility. In the past, NetSol has developed and marketed smaller banking solutions to Citibank in Pakistan. While there are no assurances, Management hopes to couple the sophistication of

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PTS with its own experience in developing and marketing banking solutions to the Company s advantage.

Growth Through Acquisition

After a period of consolidation and disposals, the Company has reached a point of stability. The Company believes it is the right time to look at M&A opportunities again. With the technology downturn, valuations have become more realistic and many smaller private companies have found raising capital for growth a major challenge.

With this backdrop, NetSol identified Altvia Technologies Inc. of the Maryland/Washington D.C. area as a perfect fit. NetSol needed to launch a presence with a full working offshore model in the US to benefit from the recent turnaround in technology spending. Altvia provide that platform, as it uses a similar methodology as NetSol.

Altvia provides NetSol with an immediate presence, processes, high-level sales & marketing resources and existing customers to offer its array of products and services to the mainstream US markets.

Like the identification and acquisition of Altvia, the Company will continue to explore merger and acquisition opportunities which will benefit the Company by providing market opportunities or economies of scale.

Growth through Establishing Partners Network

NetSol is well aware that market reach is essential to effectively market I/T products and services around the globe. For this purpose, the Company is looking forward to establishing a network of partners worldwide. These companies will represent NetSol in their respective countries and will develop business for NetSol.

The Company hopes to initially form in Denmark, for the Scandinavian markets, and Holland, for the Benelux countries.

Strategic Alliances

Making well thought out strategic alliances result in corporate synergies enabling accomplishments otherwise unattainable. NetSol has recently made such an alliance with Hyundai Information Technology Co., Ltd. (HIT) of South Korea. HIT has had a successful experience in implementing a $25 Million I/T project for the State Bank of Pakistan. As per the mandate of this alliance, NetSol and HIT anticipate to bid work as a team on all potential infrastructure development and defense related projects within Pakistan. These projects will primarily involve the public sector and Pakistan s armed forces. Despite the alliance, no assurances can be given that any project will be awarded to the NetSol-HIT team.

With the recent deregulation of Pakistan s telecommunications sector and the government s desire to attract investors to the country, while experiencing an unprecedented increase in exports, Pakistan is keen to build a solid technology infrastructure to support the growth expected over the next several years. The areas within Pakistan expected to receive major information technology investments by the government are education, public sector automation, railways and the country s armed forces.

NetSol Connect, Pvt. Ltd., a wholly owned IP backbone and broadband subsidiary of the Company, has recently forged a partnership with UK based computer company, Akhtar Computers of U.K. Pursuant to this agreement, NetSol has retained control of the Company with ownership of 50.1% to Akhtar s 49.9%. This alliance is designed to permit NetSol to benefit from the potentially high growth of the telecommunications market by bringing in new technology, new resources and capital while permitting NetSol to focus on its core competencies of developing and marketing software.

NetSol and Intel Corporation recently announced a strategic relationship that would potentially permit NetSol to market its core product, LeaseSoft , through Intel websites. In a joint press release made recently by both NetSol and Intel, both companies would deliver a new Solution Blueprint for its core leasing solution. With the collaboration to create a world-class blueprint for the leasing and finance industry, deployment should become even faster and smoother for our customers. This alliance is discussed at www.Intel.com/ebusiness/Solutions/finance.htm.

Technical Affiliations

The Company currently has technical affiliations as: a MicroSoft Certified Partner; a member of the Intel Early Access Program; and, an Oracle Certified Partner.

Marketing and Selling

The Marketing Program

While affiliations and partnering result in potential growth for the Company, marketing and selling remain essential to building Company revenue. 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. Marketing is performed at the corporate and business unit levels. The corporate marketing department has overall responsibility for communications, advertising, public relations and the website and also engineers and oversees central marketing and communications programs for use by each of the 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. 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 gradual and cautious entry into the US market.

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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 latter 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.

The Markets

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; U.S. higher education and telecommunication associations and, financial services.

Geographically, NetSol has operations on the West and East Coast of the United States, Central Asia, Europe, and Asia Pacific regions.

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

	2003	2002
North American (NetSol USA, Intereve)	15%	41%
Europe (NetSol Technologies, UK Ltd.)	5%	0%
Other International (Abraxas, NetSol Technologies Pvt. Ltd., NetSol Pvt., Ltd., NetSol Connect)	80%	59%
Total Revenues	100%	100%

Fiscal Year 2003 Performance Overview

The Company has effectively expanded its development base and technical capabilities by training its programmers to provide customized I/T solutions in many other sectors and not limiting itself to the lease and finance industry. 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 I/T agency, NASSCOM, showed software exports exceeding $9.5 billion in the year 2002-2003 as opposed to $7 billion in 2001. This upward growth, though not phenomenal anymore, is expected to remain unchanged for the next few years.

NetSol Technologies PVT Ltd.

Our subsidiary in Pakistan continues to perform strongly and has enhanced its capabilities and expanded its sales and marketing activities. The Lahore operation supports our worldwide customer base of the LeaseSoft suite of products and all other product offerings. NetSol has continued to lend support to the Lahore subsidiary to further develop its quality initiatives and infrastructure. The major initiative in this area is the final stage of phase 1 of the development of the technology campus. The development facilities in Pakistan, being the engine, which drives Netsol, continues to be the major source of revenue generation. The Pakistan operation has contributed nearly 43% of 2003 revenues primarily through export of I/T Services and product licensed to the overseas markets. NetSol Pakistan has signed on new customers such as Mercedes Benz Finance Japan, DaimlerChrysler Finance Korea and, DaimlerChrysler Leasing Thailand. It also recently signed development contracts with Yamaha Motors of Australia with the marketing and customer support provided by NetSol s subsidiary in Adelaide, Australia.

NetSol Technologies UK Ltd

The Company launched its UK subsidiary in Fiscal 2003. The UK company is resourced with experts from the financial services industry. The senior executives joining the Company s UK group brings substantial experience gained from CitiGroup as well as academic excellence from the world s renowned IIT of India. The main focus of this entity is to market the array of banking and leasing solutions in the heart of the financial district in London and the rest of Europe. The UK company has grown completely organically to a business expected to produce over $0.5 Million in revenue by the end of the current fiscal year.

The UK company will shortly launch the marketing of the LeaseSoft suite of products. A comprehensive benchmarking of the LeaseSoft Suite will precede the launch. The Company has retained a consultancy firm to conduct a Gap Analysis for the European market. This exercise would help the UK subsidiary position LeaseSoft as a solution that provides a core set of functionality for the European markets. In addition, the most recent pending acquisition of PTS is designed to create incremental business and new revenue base by penetrating into the UK and European banking segments. Most recently, the UK operations entered into agreements with Citibank Bahrain, DCD Group UK and Habib Allied Bank in the UK.

NetSol-Abraxas

The Australian market continues to be vibrant as NetSol maintains its customers such as Yamaha Motors, 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.

The Company signed Yamaha Motors in Australia and DaimlerChrysler Finance in New Zealand as new customers of the LeaseSoft suite. There are a number of new prospects that are in varying degrees of the decision-making process. The Australian subsidiary contributed over 12% of revenues

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in fiscal year 2003.

NetSol CONNECT

In August 2003, Netsol entered into an agreement with United Kingdom based Akhtar Group PLC (Akhtar). Under the terms of the agreement, Akhtar Group acquired 49.9 percent of the Company s subsidiary, Pakistan based Netsol Connect PTV Ltd., an Internet service provider (ISP) in Pakistan. As part of this Agreement, NetSolCONNECT changed its name to NetSol Akhtar.

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 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 a 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 s* rapid growth has contributed over 25% to NetSol s revenue. The retail business continues to hold steady accounting for close to 60% of NetSol CONNECT s revenue while corporate clients accounted for 40%. The new partnership with Akhtar Computers is designed to rollout the services of connectivity and wireless to the Pakistani national market.

Akhtar, one of the oldest established computer companies in the UK, is well recognized as a provider of managed Internet services, integrated networks, both local area networks and wide area networks, as well as metropolitan area networks within the UK.

Akhtar owned proprietary broadband technologies and solutions will provide NetSol CONNECT a technologically strong platform for strengthening its telecommunications infrastructure within Pakistan with a goal of becoming a leading provider of broadband Internet access to both residential and commercial users.

The initial stage of the agreement provides NetSol with an investment of up to $1 million in cash to launch a broadband infrastructure in Karachi, the largest business hub in Pakistan. The initial infrastructure will provide a 155MB backbone and a 5MB broadband to customer premises using a proprietary broadband technology and an infrastructure consisting of 20 hubs. After the successful launch of the initial six-month beta program to Karachi s residential and commercial customers, additional rollouts of the hubs are scheduled in Lahore and Islamabad within a 12-month period.

The second investment into the program could provide up to $20 million to create the first Terabit backbone in Pakistan. This will allow NetSol to provide data, voice, video and other multi-media services to major cities within Pakistan.

Netsol Akhtar Pvt Ltd. shall continue to aggressively seek revenues to growth.

Netsol USA

In May 2003, NetSol acquired the assets of Altvia Technologies, Inc. (Altvia). Altvia provided NetSol an experienced management team familiar with the offshore software development model. From 2000 2003, Altvia maintained an offshore development team in Islamabad, Pakistan. Altvia s clients included major member-based higher education and telecommunications trade associations in the Washington, D.C. and Baltimore area. The acquisition allows NetSol to extend its business presence in the United States, specifically in the high-growth, greater-Washington, D.C. market. Netsol USA functions as the service provider for the US based customers both in the consulting services area as well as project management. The office provides greater access to the emerging East Coast markets.

LeaseSoft Sales

LeaseSoft is establishing itself as a dependable and preferred system in the niche market of asset based lease and finance. In 2002-2003, NetSol was able to sell a number of LeaseSoft licenses in Asia Pacific, details of which are as follows:

LeaseSoft.WFS at Yamaha Motors Finance Australia (YMF). This was an exemplary implementation carried out in record 10 weeks time. A pilot project within the client organization, YMF has recommended this software for future implementations wherever YMF may start a wholesale lease and finance business.

LeaseSoft.CAP DaimlerChrysler Leasing Thailand (DCLT). DCLT was already using LeaseSoft.WFS for managing their wholesale finance business and as soon as they decided to aggressively follow retail side leasing in Thailand they opted for NetSol s Credit Application Processing System. LeaseSoft.CAP will enable DCLT to process larger numbers of applications per given period of time while simultaneously reducing probability of a default per approved loan.

LeaseSoft.CAP at UMF Leasing Singapore. UMF Leasing Singapore was already using LeaseSoft.CAM and opted for another application from the LeaseSoft suite, LeaseSoft.CAP. Both the applications (LeaseSoft.CAM & LeaseSoft.CAP) seamlessly integrate to provide back office automated processing of credit applications and comprehensive management of the resulting contracts.

LeaseSoft.CAP at DaimlerChrysler Services New Zealand. DaimlerChrysler was already using this system in Australia and opted for this system as they started their operations in New Zealand. Management believes this highlights that the LeaseSoft system has satisfied and built a brand loyal customer base.

Shin DB (Database Model of retail side LeaseSoft) at Mercedes Benz Finance Japan (MBFJ). MBFJ has acquired an integrated Database Model of LeaseSoft.CAP & LeaseSoft.CAM.

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LeaseSoft.WFS at DaimlerChrysler Services South Korea. Looking at the success of this software in Thailand, DaimlerChrysler purchased and implemented this software while establishing their operations in South Korea.

Pay per use Pricing Strategy for LeaseSoft

NetSol understands that the high upfront cost of acquiring LeaseSoft can be barrier to entry for some medium to small size companies. To continue to aggressively broaden the client base, NetSol has been innovative in this regard and plans to introduce PAY PER USE pricing strategy for all LeaseSoft constituent applications. According to this strategy, small and medium scale clients will only pay for the system for the amount of time they use it or the number of transactions they carry out through it. NetSol plans to introduce this novel pricing by end of first quarter 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 2001, but due to the delay in financing, and other challenges facing the Company, the completion was delayed. However, Phase One is nearly complete and the Lahore operation is expected to be moved to the Technology Campus before February 2004. By relocating the entire Lahore 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 2,500 I/T professionals in approximately three acres of land. The campus site is located in Pakistan s second largest city, Lahore, with population of six million. An educational and cultural center, the city is home to most of the leading technology oriented academia of Pakistan including names like LUMS, NU-FAST & UET. These institutions are also the source of quality I/T resources for the Company. Lahore is a modern city with very good communication infrastructure and road network, The Technology campus is located at about a 5-minute drive from the newly constructed advanced and high-tech Lahore International Airport. This campus will be the first purpose built software building with state of the art technology and communications infrastructure in Pakistan. The Company has made this investment to attract contracts and projects from blue chip customers from all over the world.

People and Culture

The Company believes it 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. Almost every one of our software developers is proficient in the English language. English 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 employees 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. NetSol attracts professionals not just from Pakistan, where it is very well known, but also I/T professionals living overseas.

NetSol believes it has gathered, over the course of many years, a team of very loyal, dedicated and committed employees. Their continuous support and belief in the management has been demonstrated by their further investment of cash. Most of these employees have exercised their millions of stock options during very difficult times for the Company. Management believes that its employees are the most invaluable asset of NetSol. The Company s survival in the most challenging times is due, in part, to their dedication towards continuous achievement of highest quality standards and customer satisfaction.

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

As of June 30, 2003, we had 253 full-time employees; comprised of 173 I/T project personnel, 54 employees in general and administration and 26 employees in sales and marketing. There are 8 employees in the United States, 235 employees in Pakistan, 5 in Australia and 5 in the 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, CresSoft, 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.

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Customers

Some of the customers of NetSol include: DaimlerChrysler Services Asia Pacific Singapore; Mercedes Benz Finance Japan; Yamaha Motors Finance Australia; Tung-Yang Leasing Company Taiwan; Debis Portfolio Systems UK; DaimlerChrysler Services Australia; DaimlerChrysler Leasing Thailand; DaimlerChrysler Services Korea; UMF Leasing Singapore; and, DaimlerChrysler Services New Zealand. In addition, NetSol provides offshore development and customized I/T solutions to blue chip customers such as Citibank Pakistan, DCD Holding UK, and, Habib Allied Bank UK. With the Altvia acquisition, NetsSol has acquired, as clients, some of the most well known higher education and telecommunications associations based in the United States East Coast. NetSol is also a strategic business partner for DaimlerChrysler Services Asia Pacific (which consists of a group of many companies), which accounts for approximately 20% of our revenue. No other individual client represents more than 10% of the revenue for the fiscal year ended June 30, 2003.

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. The Company also maintains a product specific website for LeaseSoft at www.leasesoft.biz.

Through its Web sites, 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.

Operations

The Company s headquarters are in Calabasas, California. 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 Adelaide, Australia. The majority of the marketing is conducted through NetSol USA, NetSol Abraxas Australia, and Netsol UK.

NetSol UK services and supports the clients in the UK and Europe. 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 $11.0 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 300% year to date (Karachi Stock Exchange on October 18, 2001 was at 1,103 points vs. 4,500 points on September 1, 2003). 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. Just recently Moody s International assessed Pakistan as less vulnerable than many countries in the Asia Pacific region. Also, Standard & Poors rating on Pakistan has been improved to positive. The present government has taken major bold steps to attract new foreign investment and bolster the local economy.

NetSol USA 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 Maryland office provides greater access to the emerging markets on the East Coast. NetSol USA is exploring opportunities for marketing alliances with local companies to further enhance its marketing capabilities.

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 in the United States, Asia Pacific region, Pakistan, Europe, Japan and Australia. However, management s outlook for the continuing operations, which has been consolidated and has been streamlined, remains optimistic and bullish. With continued emphasis on a shift in product mix towards the higher margin consulting services, the Company anticipates to be able to continue to improve operating results at its core by reducing costs and improving gross margins.

Intellectual Property

The Company relies upon a combination of nondisclosure and other contractual arrangements, as well as common law trade secret, copyright and trademark laws to protect its proprietary rights. The Company enters into confidentiality agreements with its employees, generally requires its consultants and clients enter into these agreements, and limits access to and distribution of its proprietary information. The NetSol logo and name, as well as the LeaseSoft logo and product name have been copyrighted and trademark registered in Pakistan.

Governmental Approval and Regulation

Current Company operations do not require specific governmental approvals. Like all companies, including those with multinational subsidiaries, we are subject to the laws of the countries in which the Company maintains subsidiaries and conducts operations. Pakistani law allows a 15-year tax holiday on exports of I/T products and services. There are no State Bank restrictions on profits and dividends repatriation. Accordingly, foreign-based companies are free to invest safely in Pakistan and at the same time transfer their investment out of Pakistan without any approvals or notices. The present Pakistani government has effectively reformed the policies and regulations effecting foreign investors and multinational companies thus,

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making Pakistan an attractive and friendly country in which to do business.

ITEM 2 - PROPERTIES

Company Facilities

As of October of 2002, the Company moved from its previous facility to one with approximately 1,575 rentable square feet and a monthly rent of $2,993.00 per month. The previous location had a monthly rent of over $13,000 per month. The lease is on a month-to-month basis. The Company s 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:

Location/Approximate Square Feet		Purpose/Use	Monthly Rental Expense
Australia	1,140	Computer and General Office	$ 1,380
Pakistan	30,000	Computer and General Office	$ 10,000
United Kingdom	378	General Office	$ 3,000
Maryland	165	General Office	$ 1,200

The Australia lease is a four-year lease that expires in September 2003 and currently is rented at the rate of $1,380 per month. The Pakistani facility is on a month-to-month basis and is currently rented at the rate of approximately $10,000 per month. The Company s move into the Technology Campus will result in a cost savings of $150,000 per year. UK operations are currently conducted in leased premises operating on a month-to-month basis with current rental costs of approximately $3,000 per month. The facilities in Maryland are subject to a six-month lease, which expires in December 2003 and thereafter operates on a month-to-month basis rented at the rate of $1,200 per month.

Upon expiration of its leases, the Company does not anticipate any difficulty in obtaining renewals or alternative space.

ITEM 3 - LEGAL PROCEEDINGS

On April 29, 2002, Kilroy Realty L.P. filed an unlawful detainer action against the Company for unpaid rent. Pursuant to an agreement reached on September 26, 2002, the parties agreed to terminate the lease and release any and all further obligations of NetSol to Kilroy Realty L.P. in exchange for a cash payment of $70,000. This payment was made on October 10, 2002.

On May 23, 2002, Allied Interstate, Inc. filed a complaint seeking damages from the Company for breach of contract, open book account, account stated and reasonable value in the Superior Court of California, County of Los Angeles. This dispute arose out of the purchase of a German ISP provider. A settlement agreement was entered into by and between Allied and Allied s principals whereby 200,000 pre-reverse split shares of the Company s common stock were issued to the principals as full and complete settlement.

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 sought $288,743.41 plus interest at the rate of 10% above the Bank of England base rate from January 12, 2002 until payment in full is received, plus costs. The parties agreed to entry of a Consent Order whereby NetSol agreed to make payments according to a payment schedule. NetSol made payments up to May of 2002 but 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. The current terms of the payments schedule require the payment of 4,000 pounds sterling for a period of 24 months commencing March 31, 2003 and ending 24 months thereafter.

On July 31, 2002, Herbert Smith, a law firm in England, which represented NetSol in the Surrey matter filed claim for the sum of approximately $248,871 USD (which represents the original debt and interest thereon) in the High Court of Justice Queen s Bench Division. On November 28, 2002, a Consent Order was filed with the Court agreeing to a payment plan, whereby the Company paid $10,000 USD on execution $4,000 USD a month for one year and $6,000 USD per month thereafter until the debt is paid. During the year ended June 30, 2003 the Company has paid $26,000 as part of this settlement.

On March 27, 2003, Arab Commerce Bank filed a complaint in the Supreme Court of the State of New York (Index No. 600709/03) 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. The litigation arises out of a transaction from late 1999 in which Arab Commerce Bank invested $100,000 in the Company s securities through a private placement. Plaintiff claims that the removal of the legend on its shares of common stock longer than contractually required. During this purported delay, the market value of the Company s common shares decreased. The Plaintiff is essentially seeking the lost value of its shares. In the event the Plaintiff is unable to collect the amount sought, the complaint requests that NetSol repay the principal sum of the Note of $100,000 and interest at the rate of 9% per annum based on the maturity date of December 10, 2000. The Company is currently in negotiations to settle this matter. In the event such matter can not be settled, the Company intends to vigorously defend the action.

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

On June 3, 2003, NetSol filed a preliminary proxy statement for a special meeting of stockholders to vote on a reverse split for all the issued and outstanding stock of the Company. The meeting was to be held on August 15, 2003. On August 15, 2003, the Company reported that it will proceed with a 1 for 5 reverse stock split for all the issued and outstanding shares of common stock. The reverse stock split was affected to create a capital structure that met with the minimum bid requirements of NASDAQ Small Cap and to ensure that the Company s shares are traded at a price that is consistent with the expectations of the investment community.

As of the record date of June 30, 2003, there were 28.7 million shares issued and outstanding. Out of the 28.7 million, 24.7 million shares (84%) voted in favor of the reverse split. Pursuant to the above-mentioned proxy statement, the Company implemented a 1 for 5 reverse split of the Company common stock on August 18, 2003. The split successfully raised the stock price above the $1.00 NASDAQ requirement and, on September 8, 2003, the Company was notified by the NASDAQ Appeal Board that NetSol had achieved the required $1 bid compliance. The original trading symbol NTWK was restored effective September 9, 2003.

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. Per share stock prices have been adjusted to reflect the 1 for 5 reverse stock split which occurred in August 2003.

Fiscal	2002-2003		2001-2002	
Quarter	High	Low	High	Low
1st (ended September 30)	.70	.40	10.75	.80
2nd (ended December 31)	1.15	.55	2.30	.75
3rd (ended March 31)	1.20	.75	2.05	1.00
4th (ended June 30)	3.70	1.55	1.35	.45

RECORD HOLDERS - As of September 15, 2003, the number of holders of record of the Company s common stock was 154. As of September 15, 2003, there were 6,792,262 shares of common stock issued and outstanding.

DIVIDENDS - The Company has not paid 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.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

The table shows information related to our equity compensation plans as of June 30, 2003(1):

	Number of securities to be issued	Number of securities remaining available for future issuance under equity

	upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans approved by Security holders	1,436,834(2)	$ 2.15(3)	1,868,417(4)
Equity Compensation Plans not approved by Security holders	None	None	None
Total	1,436,834	$ 2.15	1,868,417

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(1) While this table shows information as of June 30, 2003, the number of securities, weighted-average and remaining securities is based on the 1 for 5 reverse split effective August 2003.

(2) Consisting of 696,384 options to acquire common stock of the Company and 740,000 warrants to acquire common stock of the Company.

(3) The weighted average of the options is $1.50 and the weighted average of the warrants is $2.75.

(4) Represents 452,500 options available for future issuance under the 2001 Incentive and Nonstatutory Stock Option Plan and 8,889,583 available for issuance under the 2002 Incentive and Nonstatutory Stock Option Plan on a pre-reverse split basis.

(b) RECENT SALES OF UNREGISTERED SECURITIES

In February 2003, DCD Holdings Ltd., a UK investment company, signed an agreement to acquire 270,000 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 550,000 with an average price of $1.87. NetSol immediately received approximately $260,000. The shares were issued in reliance on an exemption from registration available under Regulation S of the Securities Act of 1933.

In an offering closing prior to the reverse stock split in August 2003, the Company sold approximately 946,963, post-reverse split, shares of restricted Common Stock to 12 accredited investors for total consideration of $1,215,000 in reliance on an exemption from registration available under Rule 506 of Regulation D of the Securities Act of 1933, as amended. This offering originally provided units consisting of shares of common stock and warrants to acquire common stock but was amended to adjust the number of shares consistent with NASDAQ compliance requirements. As part of the placement agent agreement with Maxim Group, LLC, the Company issued warrants to purchase 81,000 shares of common stock to Maxim Group, LLC.

On August 20, 2003, the Company entered into a loan agreement with an accredited non-U.S. investor. Under the terms of the loan, the Company borrowed $500,000 from the investor. The note has an interest rate of 8% per annum. The note is due on a date that is one hundred (120) days from the issuance date. In the event of default by the Company only, the note is convertible into shares of common stock at $1.75 per share, and 100,000 warrants at the exercise price of $3.25 which expire one year from the conversion date, and 100,000 warrants at an exercise price of $5.00 per share which expire two years from the conversion date. The convertible debenture was issued in reliance on an exemption available from registration under Regulation S of the Securities Act of 1933, as amended.

ITEM 6 - MANAGEMENT S DISCUSSION AND ANALYSIS AND PLAN OF OPERATIONS

The Company s entire management and global team of engineers have set clear goals and objectives to transform NetSol into a profitable enterprise. The management believes that the Company has turned the corner by reaching the significant milestone of preserving its NASDAQ listing thus removing a major distraction for its key executives. After successful execution of recapitalization of the share structure, management is re-focused on the fundamentals. Execution of a revised marketing plan, aligned with an increased awareness and demand for its product and services, would play a key role in improvement of fundamentals as incremental top line growth is beginning to demonstrate.

Going forward, the management has set new goals to achieve over the next two quarters.

Initiatives and Investment to Grow Capabilities.

Achieve CMM Level 4 Accreditation

Enhance Software Design and Engineering Capabilities by increasing investment in training

Embark on a program of recruiting the best available talent in Project and Program Management

Complete the first phase of its dedication and fully owned Technology Campus

Increase Capex, enhance Communications and Development Infrastructure

Top Line Growth through Investment in Marketing and Positioning.

Launch LesaseSoft into new markets

Product Positioning through alliances and partnership

Event participation

Joint Ventures

Direct Marketing of Services

Funding and Investor Relations.

Grow its relationships with new Investment Banking Partners

Continue to raise capital at attractive terms for its many initiatives and programs

Re-write its Investor Relations plan and share the company s turnaround with the investment community

Improving the Bottom Line.

Continue to review costs at every level

Grow process automation

Profit Centric Management Incentives

More local empowerment and P&L Ownership in each Country Offices

In summary, the drive for consolidation and cost cutting continued in Fiscal 2003. From its biggest loss in Company s history in fiscal year 2001 of

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$14 million, the loss in fiscal year 2003 was reduced to $2.9 Million and the Company believes is well positioned to achieve profitability based on trends and initiatives taken by the management. The parent company took a major step by terminating its previous office lease in September 2002. Just in rent and related expenses, it saved over $130,000 approximately in one year. In addition, a number of senior positions were eliminated saving another $250,000 annually.

After streamlining the key operations, NetSol is in a position to derive higher productivity based on current capital employed. Nevertheless, as the drive and focus for ramping up the revenues, additional plans are being formulated to expand the resources in line with the new and bigger orders.

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, which is the engine of NetSol, was able to achieve CMM Level 2 assessment in early 2002, as the first software house in Pakistan to achieve this assessment. In quest to continuously improve the quality standards, NetSol s dedicated team was able to add yet another milestone by achieving CMM Level 3 assessment in July 2003. According to the website of SEI of Carnegie Mellon University, USA, only a few software companies in the world have announced their assessment of level 3. As a result of achieving CMM level 3, the Company is experiencing a growing demand for its products and alliances from the blue chip companies worldwide. NetSol is now aiming for CMM level 4 in 2004 and potentially CMM level 5, the highest CMM level, in 2005.

The Company has undertaken many new initiatives for business development in the Asia Pacific region, UK and North America. Our newly launched office in the UK is very active in seeking new contracts , new customers and new relationships in UK and European markets. While the US markets are still struggling with economy and retrenchment, we have a small and a high caliber professional I/T and marketing team making tremendous headway in seeking new business opportunities. Fortunately, the Asia Pacific region is the strongest market and customer base for NetSol. Just in 2003, NetSol added new customers in Japan, New Zealand and South Korea in addition to many other countries we have been dealing with in last few years.

CASH RESOURCES

The Company was successful in improving its cash position by June 30, 2003 and subsequently. In addition to some sizable cash injected by the exercise of options by several employees in 2003, we also entered into a financing deal with a UK based institution, DCD Group Ltd. This agreement was reached in February 2003 by which a small tranche of $257,000 was raised through equity placement. The company also offered a substantial number of warrants to DCD Group. If exercised, these are potentially valued to over $1.7 Million with exercise prices ranging from $0.35, $0.50 and $1.00 per share before the reverse split. Also there is a standing line of credit of $1 Million with DCD Group to fund new development related projects.

On May 5, 2003, the Company entered into an investment banking relationship with Maxim Group, LLC, a New York based investment bank. In July, the Company closed the first Private Placement Offering with Maxim as the placement agent for approximately $1.2 Million. The Company is required to register the shares of these shareholders with the SEC. The Company may explore new financing once this registration is effective, based on its capital needs.

Early in the second quarter of 2003, the Company was successful in getting a release of a $500,000 performance bond from one of its biggest customers, Daimler Chrysler-Singapore. This bond was posted by NetSol upon request of the customer in 2000. The release of this bond not only helped the company in utilizing it efficiently, but it also reflected the confidence of the customer in our deliverability and capabilities.

In October 2002, NetSol terminated its rental lease agreement with Kilroy Realty for the office space it occupied from 2000. The Company was able to recover over $200,000 cash from the letter of credit it provided to Kilroy in 2000.

As a result of stock price recovery and stability, we have witnessed employees willing to exercise their stock options and inject cash into the Company. Unexercised options and warrants represent an approximate $3 Million value to the Company and are detailed in other sections. Continued exercise of options by Company employees could result in an increased cash flow to the Company.

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

During the fiscal year 2002, Syed Husain, the Chief Operating Officer (COO) and Rick Poole, the Chief Financial Officer (CFO) left the Company. Najeeb Ghauri was appointed CFO and secretary in addition to his role of Chairman of the Board of Directors. Mark Caton joined the Company as a President of NetSol USA, Inc., a subsidiary of NetSol. He is employed as a consultant and is responsible for sales and marketing for North America.

Board of Directors

At the 2003 Annual Shareholders Meeting in January, the board was expanded to nine members. The shareholders voted in an overwhelming majority for the new slate of directors. The board now consists of these nine high caliber and experienced directors: Mr. Najeeb U. Ghauri; Mr. Jim Moody; Mr. Salim Ghauri; Mr. Eugen Beckert; Mr. Naeem U. Ghauri; Mr. Shahid Burki; Mr. Irfan Mustafa; Mr. Mark Caton; and, Mr. Shabir Randeree.

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Committees

The Company s Audit Committee consists of Mr. Jim Moody, Chairman, Mr. Shahid Burki, member, and Mr. Irfan Mustafa, member. The Compensation committee consists of Mr. Mark Caton, Chairman, Mr. Shahid Burki, member, and Mr. Irfan Mustafa, member.

RESULTS OF OPERATIONS

THE YEAR ENDED JUNE 30, 2003 COMPARED TO THE YEAR ENDED JUNE 30, 2002

Net revenues for the year ended June 30, 2003 were $3,745,386 as compared to $3,578,112 for the year ended June 30, 2002. Net revenues is broken out among the subsidiaries as follows:

	2003	2002
Netsol USA	$ 467,662	$1,453,819
Netsol - Altiva	41,206	
Netsol TECH and Private	1,581,012	1,931,639
Netsol Connect	1,185,162	
Netsol UK	83,737	
Netsol-Abraxas Australia	386,607	192,655
Total Net Revenues	$3,745,386	$3,578,113

The total consolidated net revenue for fiscal year 2003 was $3,745,386 compared to $3,578,112 in fiscal year 2002. This is a nearly 5% increase in revenue, which could be directly attributed to an increased demand of LeaseSoft products and services. The operating loss from operations in fiscal year 2003 was $2,473,714 including a depreciation & amortization charge of $1,576,890. The loss also includes settlement expenses of $202,759 for the UK and German entities. The total loss of operations including the above mentioned non-cash charges was $2,473,714, which is a significant reduction of 63% from $5,778,924 in fiscal year 2002. The net loss in fiscal year 2003 was $2,137,506 against $5,998,864 in FY 2002 or 57% reduction. Similarly the net loss per share dropped to $0.47 in 2003 against $2.00 in 2002. The total weighted average of shares outstanding basic and diluted was 4.5 million against 3.0 million in 2002.

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 $3,876,561of revenues.

Operating expenses were $4,440,107 for the year ended June 30, 2003 as compared to $6,395,427 for the year ended June 30, 2002. During the years ended June 30, 2003 and 2002, the Company issued 205,400 and 163,000 restricted common shares in exchange for services rendered, respectively. The Company recorded this non-cash compensation expense of $158,366 and $116,995 for the years ended June 30, 2003 and 2002, respectively. Total professional service expense, including non-cash compensation, was $272,447 and $964,508 for