

NETSOL TECHNOLOGIES INC
Form 10-Q
November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

“ For the transition period from _____ to _____

Commission file number: 0-22773

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

NEVADA
(State or other Jurisdiction of
Incorporation or Organization)

95-4627685
(I.R.S. Employer NO.)

23901 Calabasas Road, Suite 2072, Calabasas, CA 91302
(Address of principal executive offices) (Zip Code)

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

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

Yes No “

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer “ Accelerated Filer “ Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes “ No

The issuer had 26,493,987 shares of its \$.001 par value Common Stock and 1,920 shares of Series A 7% Cumulative Convertible Preferred Stock issued and outstanding as of November 11, 2008.

NETSOL TECHNOLOGIES, INC.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of 9/30/08 (Unaudited)	As of 6/30/08 (Audited) (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,778,690	\$ 6,275,238
Certificates of deposit	106,949	-
Accounts receivable, net of allowance for doubtful accounts	13,886,153	10,988,888
Revenues in excess of billings	12,099,722	11,053,042
Other current assets	2,118,275	2,406,407
Total current assets	37,989,789	30,723,575
Property and equipment , net of accumulated depreciation	8,324,257	9,176,780
Other assets, long-term	981,957	1,866,437
Intangibles:		
Product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, net	9,988,525	10,837,856
Customer lists, net	1,559,101	1,732,761
Goodwill	9,439,285	9,439,285
Total intangibles	20,986,911	22,009,902
Total assets	\$ 68,282,914	\$ 63,776,694
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,123,928	\$ 4,116,659
Current portion of loans and obligations under capitalized leases	4,133,872	2,280,110
Other payables - acquisitions	103,226	846,215
Unearned revenues	4,037,556	3,293,728
Due to officers	-	184,173
Dividend to preferred stockholders payable	33,876	33,508
Cash dividend to minority shareholders of subsidiary	315,889	-
Loans payable, bank	2,559,509	2,932,551
Total current liabilities	14,307,856	13,686,944
Obligations under capitalized leases , less current maturities	267,358	332,307
Convertible notes payable	6,000,000	-
Long term loans ; less current maturities	296,698	411,608
Total liabilities	14,871,912	14,430,859
Minority interest	7,136,565	7,857,969
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized; 1,920; 4,130 issued and outstanding	1,920,000	1,920,000
Common stock, \$.001 par value; 95,000,000 shares authorized; 26,219,770; issued and 26,051,274 outstanding as of 9/30/08 25,545,482 issued and 25,525,886 outstanding as of 6/30/08	26,220	25,545
Additional paid-in-capital	76,657,363	74,950,286
Treasury stock (168,496; 19,596 shares)	(321,008)	(35,681)

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Accumulated deficit	(32,048,738)	(33,071,702)
Stock subscription receivable	(708,904)	(600,907)
Common stock to be issued	392,737	1,048,249
Other comprehensive loss	(5,643,233)	(2,747,924)
Total stockholders' equity	40,274,437	41,487,866
Total liabilities and stockholders' equity	\$ 62,282,914	\$ 63,776,694

See accompanying notes to these unaudited consolidated financial statements.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,	
	2008	2007
	(Unaudited)	(Unaudited)
Net Revenues:		
License fees	\$ 2,529,808	\$ 1,903,552
Maintenance fees	1,593,734	1,583,420
Services	5,177,425	5,166,265
Total revenues	9,300,967	8,653,237
Cost of revenues:		
Salaries and consultants	2,640,713	2,321,030
Travel	485,936	266,828
Repairs and maintenance	106,665	114,154
Insurance	32,839	38,645
Depreciation and amortization	551,325	258,907
Other	751,068	387,891
Total cost of revenues	4,568,546	3,387,455
Gross profit	4,732,421	5,265,782
Operating expenses:		
Selling and marketing	969,518	832,493
Depreciation and amortization	480,208	464,647
Bad debt expense	-	2,439
Salaries and wages	979,254	907,879
Professional services, including non-cash compensation	306,886	160,050
General and administrative	868,117	678,573
Total operating expenses	3,603,983	3,046,081
Income from operations	1,128,438	2,219,701
Other income and (expenses)		
Loss on sale of assets	(165,738)	(32,223)
Interest expense	(203,892)	(233,804)
Interest income	27,941	33,863
Gain on foreign currency exchange rates	2,007,882	55,986
Fair market value of options issued	(117,300)	-
Other income	16,454	55,961
Total other expenses	1,565,347	(120,217)
Net income before minority interest in subsidiary	2,693,785	2,099,484
Minority interest in subsidiary (restated 2007)	(1,629,761)	(1,152,107)
Income taxes	(7,182)	(32,441)
Net income (restated 2007)	1,056,842	914,936
Dividend required for preferred stockholders	(33,876)	(71,157)
Net income (loss) applicable to common shareholders (restated 2007)	1,022,966	843,779
Other comprehensive income (loss):		
Translation adjustment	(2,895,310)	162,403
Comprehensive income (restated 2007)	\$ (1,872,344)	\$ 1,006,182
Net income per share (restated 2007):		
Basic	\$ 0.04	\$ 0.04
Diluted	\$ 0.04	\$ 0.04

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Weighted average number of shares outstanding		
Basic	26,307,175	21,425,235
Diluted	28,029,442	22,844,361

See accompanying notes to these unaudited consolidated financial statements.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended Sept 30,	
	2008	2007
Cash flows from operating activities:		
Net income (restated 2007)	\$ 1,056,842	\$ 914,936
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,031,533	723,554
Provision for uncollectible accounts	-	-
Loss on sale of assets	165,738	32,223
Minority interest in subsidiary (restated 2007)	1,629,761	1,152,107
Stock issued for services	33,163	-
Fair market value of warrants and stock options granted	207,000	24,320
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,942,317)	(353,500)
Increase in other current assets	(1,960,129)	(1,080,375)
Decrease in accounts payable and accrued expenses	(259,967)	(1,130,337)
Net cash (used in) provided by operating activities	(2,038,376)	282,928
Cash flows from investing activities:		
Purchases of property and equipment	(930,058)	(745,901)
Sales of property and equipment	40,900	85,076
Payments of acquisition payable	(742,989)	(879,007)
Purchase of treasury stock	(285,328)	-
Short-term investments held for sale	(113,738)	-
Increase in intangible assets	(689,544)	(841,312)
Net cash used in investing activities	(2,720,757)	(2,381,144)
Cash flows from financing activities:		
Proceeds from sale of common stock	150,000	250,000
Proceeds from the exercise of stock options and warrants	520,569	903,499
Purchase of subsidiary stock in Pakistan	(250,000)	-
Proceeds from convertible notes payable	6,000,000	-