

NETSOL TECHNOLOGIES INC
Form 10QSB
February 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 2007

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)

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

Yes No

The issuer had 25,228,818 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 February 8, 2007.

Transitional Small Business Disclosure Format (check one)

Yes No

NETSOL TECHNOLOGIES, INC.

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NETSOL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET — DECEMBER 31, 2007
(UNAUDITED)

ASSETS

Current assets:

Cash and cash equivalents	\$ 8,543,109	
Accounts receivable, net of allowance for doubtful accounts of \$168,512	7,787,339	
Revenues in excess of billings	10,265,235	
Other current assets	2,245,899	
Total current assets		28,841,582

Property and equipment, net of accumulated depreciation		8,371,547
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Other assets, long-term		435,195
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Intangibles:

Product licenses, renewals, enhancements, copyrights, trademarks, and tradenames, net	8,747,001	
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Customer lists, net	2,080,083	
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Goodwill	7,786,032	
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Total intangibles		18,613,116
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Total assets	\$ 56,261,440	
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$ 3,415,167	
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Current portion of loans and obligations under capitalized leases	3,251,443	
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Other payables - acquisitions	83,399	
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Unearned revenues	2,645,174	
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Due to officers	184,278	
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Dividend to preferred stockholders payable	33,876	
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Loans payable, bank	1,861,338	
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Total current liabilities		11,474,675
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Obligations under capitalized leases, less current maturities		232,008
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Long term loans; less current maturities		582,402
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Total liabilities		12,289,085
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Minority interest		4,211,222
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Commitments and contingencies

Stockholders' equity:

Preferred stock, 5,000,000 shares authorized; 1,920 issued and outstanding	1,920,000	
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Common stock, \$.001 par value; 45,000,000 shares authorized; 25,133,650 issued and outstanding	25,134	
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Additional paid-in-capital	75,080,435	
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Treasury stock	(10,194)	
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Accumulated deficit	(35,746,044)	
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Stock subscription receivable	(630,907)	
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Common stock to be issued	89,132	
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Other comprehensive loss	(966,423)	
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Total stockholders' equity		39,761,133
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Total liabilities and stockholders' equity	\$ 56,261,440	
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See accompanying notes to these unaudited consolidated financial statements.

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2007	2006	2007	2006
Net Revenues:				
Licence fees	\$ 2,866,807	\$ 2,718,795	\$ 4,770,359	\$ 4,297,207
Maintenance fees	1,490,376	1,359,239	3,073,796	2,654,203
Services	4,049,287	3,149,087	9,215,552	6,138,271
Total revenues	8,406,470	7,227,121	17,059,707	13,089,681
Cost of revenues				
Salaries and consultants	2,400,991	2,441,724	4,722,021	4,373,797
Travel	311,329	432,344	578,157	748,027
Repairs and maintenance	119,032	133,818	233,186	179,553
Insurance	85,110	50,078	123,755	102,301
Depreciation and amortization	271,729	221,201	530,636	414,298
Other	431,609	317,824	819,500	688,551
Total cost of sales	3,619,800	3,596,989	7,007,255	6,506,527
Gross profit	4,786,670	3,630,132	10,052,452	6,583,154
Operating expenses:				
Selling and marketing	1,086,729	762,290	1,919,222	1,280,334
Depreciation and amortization	479,904	456,529	944,551	905,903
Bad debt expense	838	51,690	3,277	117,498
Salaries and wages	815,771	1,000,835	1,723,650	1,999,226
Professional services, including non-cash compensation	129,539	258,974	299,001	519,844
General and administrative	826,033	722,336	1,495,194	1,542,423
Total operating expenses	3,338,814	3,252,654	6,384,895	6,365,228
Income from operations	1,447,856	377,478	3,667,557	217,926
Other income and (expenses):				
Gain (loss) on sale of assets	70	(58)	(32,153)	(12,338)
Beneficial conversion feature	-	(2,208,334)	-	(2,208,334)
Amortization of debt discount and capitalized cost of debt	-	(2,069,033)	-	(2,803,691)
Liquidation damages	-	(133,833)	-	(133,833)
Interest expense	(189,142)	(211,615)	(422,946)	(459,523)
Interest income	41,575	128,303	75,438	219,049
Other income and (expenses)	149,277	39,192	261,224	106,977
Total other income (expenses)	1,780	(4,455,378)	(118,437)	(5,291,693)
Net income (loss) before minority interest in subsidiary	1,449,636	(4,077,900)	3,549,120	(5,073,767)
Minority interest in subsidiary	(382,887)	(558,571)	(657,806)	(805,845)
Income taxes	1,483	(16,141)	(30,958)	(68,965)
Net income (loss)	1,068,232	(4,652,612)	2,860,356	(5,948,577)
Dividend required for preferred stockholders	(40,368)	(65,598)	(111,525)	(65,598)
Subsidiary dividend (minority holders portion)	-	-	(817,173)	-

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Bonus stock dividend (minority holders portion)	(545,359)	-	(545,359)	-
Net income (loss) applicable to common shareholders	482,505	(4,718,210)	1,386,299	(6,014,175)
Other comprehensive gain:				
Translation adjustment	(653,396)	195,269	(490,993)	121,779
Comprehensive income (loss)	\$ (170,891)	\$ (4,522,941)	\$ 895,306	\$ (5,892,396)
Net income (loss) per share:				
Basic	\$ 0.04	\$ (0.33)	\$ 0.12	\$ (0.34)
Diluted	\$ 0.04	\$ (0.32)	\$ 0.11	\$ (0.34)
Weighted average number of shares outstanding				
Basic	24,443,901	14,064,968	22,934,568	17,280,675
Diluted	27,712,335	14,444,665	26,203,002	17,280,675

See accompanying notes to these unaudited consolidated financial statements.

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

	For the Six Months Ended December 31,	
	2007	2006
Cash flows from operating activities:		
Net income (loss) applicable to common shareholders	\$ 2,860,356	\$ (5,948,577)
Adjustments to reconcile net income (loss) applicable to common shareholders to net cash provided by (used in) operating activities:		