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NETSOL TECHNOLOGIES INC

Form 8-K/A

July 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 14, 2005
(January 19, 2005)

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
(Address of principal executive offices)

91302
(Zip Code)

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

Item 1.01. Entry into a Material Definitive Agreement.

On January 19, 2005, NetSol Technologies, Inc., a Nevada corporation (the "Company") entered into a Share Purchase Agreement whereby the Company agreed to acquire 100% of the issued and outstanding shares of CQ Systems Ltd., a company organized under the laws of England and Wales ("CQ") (the "Share Purchase Agreement"). Prior to the execution of the Share Purchase Agreement, there was no relationship between the Company and any of the parties to the Share Purchase Agreement. On March 1, 2005, the Company filed an amended current report on form 8-K including the financial statements of CQ and certain pro forma financial statements. On June 9, 2005, the Company filed and amended current report on form 8-k to remove the reference to the CQ Systems Ltd. Financial Statements for the year ended March 31, 2003 and to add the financial statements of CQ Systems Ltd. for the period ending December 31, 2004.

The Company is now attaching the March 2004 year end financial statements for CQ Systems which has been amended and which includes a new auditor's letter.

Exhibits

Listed below are the financial statements, pro forma financial information filed as a part of this report.

- (a) Financial Statements of the Business Acquired.
- (1) CQ Systems Ltd. Financial Statements for the year ended March 31, 2004

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- (2) CQ Systems Ltd. Financial Statements for the period ending December 31, 2004*
- (b) Pro Forma Financial Information.
 - (1) NetSol Technologies Inc. and Subsidiaries Pro Forma Financial Statements June 30, 2004 (Unaudited)*

NetSol Technologies Inc. and Subsidiaries Pro Forma Financial Statements June 30, 2003 (Unaudited)*

NetSol Technologies, Inc. and Subsidiaries Pro Forma Financial Statements for the quarter and six months ended December 31, 2004 (Unaudited)*
- (c) Exhibits
 - 2.1 Share Purchase Agreement dated as of January 19, 2005 by and between the Company and the shareholders of CQ Systems Ltd.*

*Previously filed

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETSOL TECHNOLOGIES, INC.

Date: July 14, 2005 /s/ Naeem Ghauri

NAEEM GHAURI
Chief Executive Officer

Date: July 14, 2005 /s/ Najeeb Ghauri

NAJEEB GHAURI
Chief Financial Officer and Chairman

CQ SYSTEMS LIMITED

COMPANY NUMBER: 1998080
(Registered in England)

FINANCIAL STATEMENTS

AND ADDITIONAL INFORMATION

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YEAR ENDED 31 MARCH 2004

CQ SYSTEMS LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2004

DIRECTORS: P J Grace
G E Tarrant
I M Tarrant
A Elliott
J Halliday
J Manktelow
C S Taylor

SECRETARY: P M Tarrant

REGISTERED OFFICE: Planet House
North Heath Lane
Horsham
West Sussex
United Kingdom
RH12 5QE

REGISTERED NUMBER: 1998080 (England)

ACCOUNTANTS & AUDITORS: CMB Partnership
Chartered Accountants and Registered Auditors
Chapel House
1 Chapel Street
Guildford
Surrey
United Kingdom
GU1 3UH

CQ SYSTEMS LIMITED

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CQ SYSTEMS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2004

The directors present their report with the financial statements of the group for the year ended 31 March 2004.

PRINCIPAL ACTIVITY

The principal activity of the group in the year under review was that of the provision of computer software and services.

DIRECTORS

The directors during the year under review were:

P J Grace
G E Tarrant
I M Tarrant
A Elliott
J Halliday
J Manktelow
C S Taylor - appointed 05/02/04

The beneficial interests of the directors holding office on 31 March 2004 in the issued share capital of the company were as follows:

| | 31.03.04 | 01.04.03 or date of appointment if later |
|-----------------------------|----------|---|
| | ----- | ----- |
| Ordinary (pound)0.20 shares | | |
| P J Grace | 75,000 | 75,000 |
| G E Tarrant | 150,000 | 150,000 |
| I M Tarrant | 150,000 | 150,000 |
| A Elliott | 55,983 | 55,983 |
| J Halliday | 38,034 | 38,034 |
| J Manktelow | 30,983 | 30,983 |
| C S Taylor | -- | -- |

The directors' interests above include shares held by connected persons.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

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- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ON BEHALF OF THE BOARD:

Secretary: P. Tarrant
Date: 24th January 2005

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CQ SYSTEMS LIMITED

INDEPENDENT AUDITOR'S REPORT

Board of Directors
NetSol Technologies, Inc. and Subsidiaries
Calabasas, California

We have audited the consolidated balance sheets of CQ Systems Limited, a United Kingdom corporation, as of March 31, 2004 and 2003, and the related statements of operations, and cash flows for the years ended March 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit of these statements in accordance with auditing standards generally accepted in the United Kingdom. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of CQ Systems Limited as of March 31, 2004 and 2003, and the results of its consolidated operations and its cash flows for the years ended March 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America. The details were extracted from the financial statements prepared under United Kingdom GAAP. The financial statements prepared under United Kingdom GAAP were audited by ourselves with an unqualified Audit Report issued.

/s/ CMB Partnership
CMB Partnership

Surrey, United Kingdom
24 January 2005

CQ SYSTEMS LIMITED
CONSOLIDATED BALANCE SHEET - ASSETS

| | Note | March 31 2004 (pound) | 2003 (pound) |
|--|------|-----------------------------|-----------------|
| | | ----- | ----- |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 809,488 | 448,13 |
| Accounts receivable (net of (pound)5,000 bad debt provision) | | 400,280 | 435,80 |
| Prepaid expenses and other receivables | | 60,501 | 47,21 |
| | | ----- | ----- |
| TOTAL CURRENT ASSETS | | 1,270,269 | 931,15 |
| | | ----- | ----- |
| AUTOMOBILES & EQUIPMENT | | | |
| Automobiles | 2 | 64,725 | 39,73 |
| Furniture and equipment | | 172,841 | 155,09 |
| Computer equipment | | 580,772 | 546,64 |
| | | ----- | ----- |
| | | 818,338 | 741,47 |
| | | ----- | ----- |
| Less accumulated depreciation | | 676,768 | 616,42 |
| | | ----- | ----- |
| | | 141,570 | 125,05 |
| | | ----- | ----- |
| | | 1,411,839 | 1,056,20 |
| | | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | Note | March 31 2004 (pound) | 2003 (pound) |
|--|------|-----------------------------|-----------------|
| | | ----- | ----- |
| CURRENT LIABILITIES | | | |
| Accounts payable | | 16,682 | 21,36 |
| Hire purchase liabilities | | 23,428 | 32,15 |
| Payroll, Vat and corporation taxes payable | | 283,017 | 135,11 |
| Dividends payable | | 53,062 | 30,00 |
| Accrued liabilities | | 75,197 | 92,91 |
| Deferred income | | 418,581 | 410,19 |
| | | ----- | ----- |
| TOTAL CURRENT LIABILITIES | | 869,967 | 721,73 |
| LONG TERM LIABILITIES AND PROVISIONS | | | |
| Hire purchase liabilities | | 38,270 | 5,27 |
| Deferred tax | | 2,916 | 1,19 |
| | | ----- | ----- |
| TOTAL LIABILITIES | | 911,153 | 728,21 |

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| | | | |
|---|---|-----------|-----------|
| SHAREHOLDERS' EQUITY | 7 | | |
| Ordinary Shares | | | |
| 1,000,000 shares authorised (pound)0.20 par value | | 100,000 | 100,000 |
| Issued and outstanding 500,000 shares | | 400,686 | 227,997 |
| Retained earnings | | | |
| | | ----- | ----- |
| | | 1,411,839 | 1,056,200 |
| | | ===== | ===== |

.....
 Approved and signed on behalf of the board of directors on

See notes to financial statements.

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CQ SYSTEMS LIMITED

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

| | Note | Year ended March 31 2004 (pound) | Year ended March 31 2003 (pound) |
|---|------|--|--|
| | | ----- | ----- |
| NET REVENUE | 1.b | 2,739,303 | 2,471,477 |
| COST OF REVENUE | | 1,082,577 | 1,069,974 |
| | | ----- | ----- |
| GROSS PROFIT | | 1,656,726 | 1,401,503 |
| OPERATING EXPENSES | 1.e | 1,119,171 | 1,302,176 |
| | | ----- | ----- |
| INCOME FROM OPERATIONS | | 537,555 | 99,327 |
| OTHER INCOME (EXPENSES) | | | |
| Interest income | | 19,483 | 10,257 |
| Interest payable | | (5,238) | (3,530) |
| | | ----- | ----- |
| INCOME BEFORE CORPORATION AND DEFERRED TAXES | | 551,800 | 106,054 |
| UK CORPORATION AND DEFERRED TAXES | 3 | (141,049) | (29,076) |
| | | ----- | ----- |
| NET INCOME | | 410,751 | 76,978 |
| RETAINED EARNINGS | | | |
| Beginning of year | | 227,997 | 181,019 |
| Less: Dividends | | (238,062) | (30,000) |
| | | ----- | ----- |

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| | | |
|-------------|------------------|------------------|
| End of year | 400,686 ===== | 227,997 ===== |
|-------------|------------------|------------------|

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Year ended March 31 2004 (pound) ----- | Year ended March 31 2003 (pound) ----- |
|----------------------|---|---|
| NET INCOME | 410,751 ----- | 76,978 ----- |
| COMPREHENSIVE INCOME | 410,751 ===== | 76,978 ===== |

See notes to financial statements.

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CQ SYSTEMS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended March 31 2004 (pound) ----- | Year ended March 31 2003 (pound) ----- |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | 2,761,544 | 2,343,179 |
| Cash paid to suppliers and employees | (2,074,453) | (2,235,165) |
| Interest received | 19,483 | 10,257 |
| Interest paid | (5,238) | (3,530) |
| Corporation tax paid | (27,878) | (8,782) |
| | ----- | ----- |
| Net cash provided by operating activities | 673,458 ----- | 105,959 ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net sales (purchases) of equipment | (97,106) ----- | (27,462) ----- |
| Net cash used by investing activities | (97,106) ----- | (27,462) ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |

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| | | |
|---|-----------|---------|
| Dividends paid | (215,000) | -- |
| | ----- | ----- |
| Net cash used by financing activities | (215,000) | -- |
| | ----- | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 361,352 | 78,497 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 448,136 | 369,639 |
| | ----- | ----- |
| End of year | 809,488 | 448,136 |
| | ===== | ===== |

See notes to financial statements.

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CQ SYSTEMS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

| | Year ended March 31 2004 (pound) | Year March (|
|--|--|--------------------|
| | ----- | ----- |
| RECONCILIATION OF NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Net Income | 410,751 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 80,587 | 1 |
| Decrease/(increase) in accounts receivable and other debtors | 22,241 | (1 |
| Increase in accounts payable and other creditors | 46,708 | |
| Increase in corporation taxes payable | 111,453 | |
| Increase in deferred taxes | 1,718 | |
| | ----- | ----- |
| | 262,707 | |
| | ----- | ----- |
| | 673,458 | 1 |
| | ===== | ===== |

See notes to financial statements.

CQ SYSTEMS LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and are stated in United Kingdom sterling.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated balance sheet and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

a. Principles of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary. The group's subsidiary is Custom Quest Limited, a dormant company that has not traded since 31 May 2001 in which the group has a 100% direct holding in the voting rights. The net assets of the subsidiary company since cessation of trade is (pound)nil.

b. Revenue

The group recognises its revenue in accordance with the Securities and Exchange Commissions ("SEC") Staff Accounting Bulletin No 104 "Revenue recognition in Financial Statements".

Licence revenue is recognised where orders have been signed and the product is delivered. In contracts with multiple elements revenues are allocated to each element based on the fair value on completion, delivery and acceptance by the customer. For other services related activity, revenue is recognised on a time and material basis.

c. Automobiles and equipment

Depreciation is provided at the following rates in order to write off each asset over its useful life;

| | |
|-------------------------------|----------------------|
| Computer software | 50% straight line |
| Office furniture and fittings | 15% straight line |
| Computer equipment | 33.33% straight line |
| Automobiles | 25% straight line |

The group evaluates tangible fixed assets for impairment losses at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or is greater than its fair value.

Long-lived assets

Effective January 1 2002, the group adopted Statement of Financial Accounting Standards No 144 "Accounting for the impairment or

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disposal of long-lived assets" ("SFAS 144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The group has evaluated the carrying value of long-lived assets held in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets when indicators of impairment are present where the carrying amount exceeds the fair value of the asset. Based on its review, the group believes that as of March 31 2004 and 2003, there were no significant impairments of its long-lived assets.

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CQ SYSTEMS LIMITED

NOTES TO FINANCIAL STATEMENTS - Continued

d. Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. These reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities at the balance sheet date and their respective tax bases.

e. Research and Development

Expenditure on research and development is written off in the year in which it is incurred. Development costs on computer software that is to be sold relates to bespoke work undertaken for particular customers as and when requested. Under these circumstances, these costs are written off as incurred rather than capitalised and amortised, as they relate solely to the individual customers specifications rather than being available for general release to customers.

f. Advertising

The company expenses advertising costs as they are incurred.

g. Hire Purchase and Leasing Commitments

Assets obtained under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful estimated lives.

The interest element of these obligations are charged to the statement of income and retained earnings over the lease term. The capital element of the future payments is treated as liability.

Rentals paid under operating leases are charged to the statement of income and retained earnings on a straight line basis.

h. Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the statement of income and retained earnings.

i. Cash and cash equivalents

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Cash and cash equivalents consist of cash at bank and in hand.

j. Foreign currency transactions

Accounting principles generally require that recognised revenue, expenses, gains and losses be included in net income. Certain statements however require entities to report specific changes in assets and liabilities, such as a gain or loss on a foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. Cumulative translation adjustments were insignificant in both the year and preceding year.

2. SECURED CREDITORS

The amounts owed under hire purchase contracts totalling (pound)61,698 (2003 - (pound)37,428) are secured on the assets acquired.

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CQ SYSTEMS LIMITED

NOTES TO FINANCIAL STATEMENTS - Continued

3. CORPORATION AND DEFERRED TAXES

Provision is made for United Kingdom corporation tax payable on the group's taxable net income. This is provided for at the rate of tax prevailing at that time. The current standard corporation tax rate in the United Kingdom is 30%. Deferred tax is provided using the standard rate.

The UK corporation and deferred tax charge is stated below:-

| | Year Ended March 31 2004 (pound) ----- | Year March 20 (po ----- |
|-----------------|--|-------------------------------------|
| Corporation tax | 139,331 | 27 |
| Deferred tax | 1,718 | 1 |
| | ----- 141,049 ----- | ----- 29 ----- |

The corporation tax assessed for the year is set out below:-

| | Year Ended March 31 2004 (pound) | Year March 20 (po |
|--|---|----------------------------|
|--|---|----------------------------|

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| | | |
|--|----------|-------|
| Net Income | 551,800 | 106 |
| | ===== | ===== |
| Net income multiplied by standard rate of corporation tax of 30% (2003: small companies corporation tax rate of 19%) | 165,540 | 20 |
| Effects of:- | | |
| Excess of capital allowances over depreciation | (1,099) | 6 |
| Expenses not allowable for tax Marginal relief | 977 | |
| | (26,087) | |
| | ----- | ----- |
| | 139,331 | 27 |
| | ----- | ----- |

4. COMMITMENTS

The group is committed to making operating lease payments of (pound)82,500 in the forthcoming year.

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CQ SYSTEMS LIMITED

NOTES TO FINANCIAL STATEMENTS - Continued

5. MAJOR CUSTOMERS

Revenue from customers accounting for more than 10% of the total net revenue for the year are as follows:

| | |
|---|---------------|
| Singer & Friedlander Insurance Finance Limited | (pound) 689,3 |
| Cattles Commercial Leasing Limited and Cattles Commercial Finance Limited | (pound) 544,4 |

6. DIVIDENDS

The shareholders of the company in their meeting dated 23 September 2003 approved a dividend of (pound)185,000. A further dividend of (pound)53,062 was approved at a meeting held on 26 February 2004.

7. SHAREHOLDERS EQUITY

| | March 31 2004 (pound) | March 31 2003 (pound) |
|-------------------------------------|-----------------------------|-----------------------------|
| | ----- | ----- |
| Net income for year | 410,751 | 76,978 |
| Dividends | (238,062) | (30,000) |
| | ----- | ----- |
| Net addition to shareholders equity | 172,689 | 46,978 |
| Opening Shareholders equity | 327,997 | 281,019 |

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| | | |
|-----------------------------|---------|---------|
| | ----- | ----- |
| Closing Shareholders equity | 500,686 | 327,997 |
| | ----- | ----- |

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COMPANY BALANCE SHEET - ASSETS

| | Note | March 31 2004 (pound) | 2003 (pound) |
|--|------|-----------------------------|-----------------|
| | | ----- | ----- |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 809,488 | 448,13 |
| Accounts receivable (net of (pound)5,000 bad debt provision) | | 400,280 | 435,80 |
| Prepaid expenses and other debtors | | 60,501 | 47,21 |
| | | ----- | ----- |
| TOTAL CURRENT ASSETS | | 1,270,269 | 931,15 |
| | | ----- | ----- |
| EQUIPMENT | | | |
| | 2 | | |
| Automobiles | | 64,725 | 39,73 |
| Furniture and equipment | | 172,841 | 155,09 |
| Computer equipment | | 580,772 | 546,64 |
| | | ----- | ----- |
| | | 818,338 | 741,47 |
| Less accumulated depreciation | | 676,768 | 616,42 |
| | | ----- | ----- |
| | | 141,570 | 125,05 |
| | | ----- | ----- |
| | | 1,411,839 | 1,056,20 |
| | | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | March 31 2004 (pound) | 2003 (pound) |
|--|--|-----------------------------|-----------------|
| | | ----- | ----- |
| CURRENT LIABILITIES | | | |
| Accounts payable | | 16,682 | 21,36 |
| Hire purchase liabilities | | 23,428 | 32,15 |
| Payroll, Vat and corporation taxes payable | | 283,017 | 135,11 |
| Dividends payable | | 53,062 | 30,00 |
| Accrued liabilities | | 75,197 | 92,91 |
| Deferred income | | 418,581 | 410,19 |
| | | ----- | ----- |
| TOTAL CURRENT LIABILITIES | | 869,967 | 721,73 |

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| | | |
|---|-----------|----------|
| LONG TERM LIABILITIES AND PROVISIONS | | |
| Hire purchase liabilities | 38,270 | 5,27 |
| Deferred tax | 2,916 | 1,19 |
| | ----- | ----- |
| TOTAL LIABILITIES | 911,153 | 728,21 |
| SHAREHOLDERS' EQUITY | | |
| Ordinary Shares | | |
| 1,000,000 shares authorised (pound)0.20 par value | | |
| Issued 500,000 shares | 100,000 | 100,00 |
| Retained earnings | 400,686 | 227,99 |
| | ----- | ----- |
| | 1,411,839 | 1,056,20 |
| | ===== | ===== |

.....
 Approved and signed on behalf of the board of directors on