UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2001

( ) For the transition period from __________ to __________

Commission file number: 0-22773

NETSOL INTERNATIONAL, INC.
(Exact 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 No.)

24025 Park Sorrento, Suite 220, 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 X No ___

The issuer had 11,731,440 shares of its $.001 par value Common Stock issued and outstanding as of May 11, 2001.

Transitional Small Business Disclosure Format (check one)

Yes ___ No X

NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
MARCH 31, 2001
ASSETS

<TABLE>
<S> <C>

Current Assets:	
Cash	$ 1,013,559
Accounts receivable, less allowance for doubtful accounts of $645,228	3,652,305
Revenue recognized in excess of billings	195,150
Other current assets	331,471
Total Current Assets	$ 5,192,485
Property and Equipment, net of accumulated Depreciation and amortization	$ 3,341,335
Other Assets	$ 1,452,837
Intangibles:	
Product license, renewals, enhancements and copyrights, net	$ 4,408,890
Customer lists, net	2,235,205
Goodwill, net	5,841,706
Total Intangible Assets	$ 12,485,801
	$ 22,472,458

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts payable and accrued expenses	$ 2,569,415
Current maturities of obligations under capital lease	209,011
Total Current Liabilities	$ 2,778,426
Deferred Tax Liability	2,700,000

Obligations under capitalized leases, less current maturities	$ 299,144
Stockholders' Equity:	
Common stock; $.001 par value, 25,000,000 shares authorized, 11,621,669 shares issued and outstanding	$ 11,622
Common stock receivable	(68,650)
Additional paid-in capital	29,652,181
Other comprehensive loss	(1,422,648)
Accumulated deficiency	(11,477,617)
Total Stockholders' Equity	$ 16,694,888
	$ 22,472,458

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Forthe Three Months Ended March 31, 2001 & 2000 and For the Nine Months Ended March 31, 2001 & 2000

<TABLE>
<CAPTION>

	Three Months Ended March 31		Nine Months Ended March 31	
	2001*	2000*	2001*	2000*
<S>	(unaudited) <C>	(unaudited) <C>	(unaudited) <C>	(unaudited) <C>
Revenues:				
Services and other	$ 1,520,725	$ 1,555,892	$ 4,628,738	$ 4,064,248
Licenses	$ 329,524	$ 302,456	$ 1,132,496	$ 987,345
	$ 1,850,249	$ 1,858,348	$ 5,761,234	$ 5,051,593
Cost of Revenues	$ 908,230	$ 725,484	$ 2,724,842	$ 1,700,406
Gross profit	$ 942,019	$ 1,132,864	$ 3,036,392	$ 3,351,188
Operating expenses:				
Depreciation and amortization	$ 277,733	$ 287,360	$ 916,097	$ 1,056,655
Professional Services	362,728	266,047	969,309	761.311
Provision for bad debts	235,228	-0-	660,630	24,750
Impairment loss of intangible assets	1,236,593	-0-	1,236,593	-0-
General and administrative	1,305,855	1,366,218	3,465,022	3,474,086
Total Operating Expenses	$ 3,418,137	$ 1,919,625	$ 7,247,651	$ 5,316,802
Other income/(expense)	$ 100,849	$ (10,842)	$ 225,082	$ (45,963)
Loss from continuing operations	$ (2,375,269)	(797,603)	$ (3,986,177)	$ (2,011,576)
Discontinued Operations:				
Loss from operations of discontinued division	$ 266,479	$ 436,028	$ 657,965	$ 590,898
Loss on disposal of division	614,532	-0-	614,532	-0-
	$ (881,011)	$ (436,028)	$ (1,272,497)	$ (590,898)
Net loss	$ (3,256,280)	$ (1,233,631)	$ (5,258,674)	$ (2,602,474)
Net loss per share - continuing operations Basic and diluted	$ (0.21)	$ (0.08)	$ (0.36)	$ (0.21)
Net loss per share - discontinued operations Basic and diluted	$ (0.08)	$ (0.05)	$ (0.11)	$ (0.06)
Net loss per share - Total Basic and diluted	$ (0.29)	$ (0.13)	$ (0.47)	$ (0.27)
Weighted average shares outstanding:	11,341,948	9,600,865	11,083,012	9,389,398

</TABLE>

* Restated for business combinations accounted for under Pooling of Interest method and for discontinued operations.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents
For the Nine Months Ended March 31, 2001 & 2000

<TABLE>
<CAPTION>

	NINE MONTHS ENDED MARCH 31	
	2001*	2000*
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss from continuing operations	$ (3,986,177)	$ (2,011,576)
ADJUSTMENTS TO RECONCILE INCOME TO NET CASH PROVIDED BY OPERATIONS		
Depreciation and amortization	$ 916,097	$ 1,056,655
Impairment loss	1,236,593	-0-
Non-cash compensation expense	64,800	777,500
Bad debts	660,630	-0-
Foreign currency translation	(1,445,495)	-0-
(Increase) decrease in A/R and revenues recognized in excess of billings	(1,824,828)	(1,320,821)
(Increase) decrease in other current assets	(184,718)	(1,137,099)
(Increase) decrease in other assets	(619,834)	(306,654)
(Increase) decrease in A/P	751,668	(1,161,724)
Net cash (used) provided by continuing operations	$ (4,431,264)	$ (1,780,271)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	$ (1,078,784)	$ (319,455)
Proceeds from certificates of deposits	1,000,000	-0-
Net cash provided by (used) in investing activities	$ (78,784)	$ (319,455)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock and warrants, net	$ 3,394,167	$ 7,696,121
Principal payment on loan payable	(75,000)	-0-
Exercise of stock options, net	33,000	-0-
Proceeds from loans payable, stockholders	-0-	(44,750)
Proceeds from note payable	-0-	141,788
Contribution of capital	-0-	260,349
Principal payments on capital lease obligations	(116,141)	(36,662)
Stock subscription receivable	-0-	(25,000)
Net cash provided by financing activities	$ 3,236,026	$ 7,991,846
Net (decrease) increase in cash from continuing operations	$ (1,274,022)	$ 5,892,120
Cash used for discontinued operations	(424,539)	(1,521,337)
Cash and equivalents, beginning of period, restated	2,712,120	31.714
Cash and equivalents, end of period	$ 1,013,559	$ 4,402,497

</TABLE>

* Restated for business combinations accounted for under Pooling of Interest method and for discontinued operations.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)
Increase (Decrease) in Cash and Cash Equivalents
For the Nine Months Ended March 31, 2001 & 2000

<TABLE>
<CAPTION>

	NINE MONTHS ENDED MARCH 31	
	2001*	2000*
<S>	<C>	<C>
Supplemental Cash Flow Information:		
Cash paid during the period for interest:	$ 93,148	$ 38,585

Cash paid during the period for income taxes:	$ 1,700	$ -0-
Supplemental disclosure of non-cash investing and financing activities: Issuance of 4,200,000 shares of common stock per stock purchase agreements	$ --	$ 1,071,855
Issuance of 115,420 shares for conversion of note payable, Related party, to equity	$ 425,611	$ --
Issuance of common stock shares for services rendered	$ 64,800	$ 777,500
Conversion of note payable to stock	$ 100,000	$ --

</TABLE>

* Restated for business combinations accounted for under Pooling of Interest method and for discontinued operations.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED MARCH 31, 2001 AND 2000 (UNAUDITED)

PRINCIPLES OF CONSOLIDATION: The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Network Solutions PVT, Ltd., NetSol UK, Ltd., Network Solutions Group Ltd. and subsidiaries, NetSol Abraxas Australia Pty Ltd., NetSol Connect PVT, Ltd., NetSol eR, Inc., Supernet AG and NetSol USA. All material intercompany accounts have been eliminated in consolidation.

BUSINESS ACTIVITY: The Company designs, develops, markets, and exports proprietary software products to customers in the automobile finance and leasing industry worldwide. The Company also provides consulting services in exchange for fees from customers.

USE OF ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF PRESENTATION: The consolidated condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended June 30, 2000. The Company follows the same accounting policies in preparation of interim reports.

Results of operations for the interim periods are not indicative of annual results.

FOREIGN CURRENCY: The accounts of Network Solutions Group Ltd. and Subsidiaries and NetSol UK, Limited use the British Pounds, Network Solutions PK, Ltd. and NetSol Connect PVT, Ltd. use Pakistan Rupees, Netsol Abraxas Australia Pty, Ltd. uses the Australian dollar, Supernet AG uses the German Mark, Netsol International, Inc. and subsidiaries NetSol USA, Inc. and NetSol eR, Inc. use the U.S. dollars as the functional currencies. Assets and liabilities are translated at the exchange rate on the balance sheet date, and operating results are translated at the average exchange rate throughout the period. Translation losses of $1,422,648 at March 31, 2001 are classified as an item of other comprehensive loss in the stockholders' equity section of the consolidated balance sheet.

REVENUE RECOGNITION: Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with all applicable accounting regulations, including American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97 2, Software Revenue Recognition, as amended by SOP 98-4 and 98-9. Any revenues from software arrangements with multiple elements are allocated to each element of the arrangement based on the relative fair values using specific objective evidence as defined in the SOPs. If no such objective evidence exists, revenues from the arrangements are not recognized until the entire arrangement is completed and accepted by the *customer. Once the amount of the revenue for each element is determined, the Company recognizes revenue as each element is completed and accepted by the customer. For arrangements that require significant production, modification or customization of software, the entire arrangement is accounted for by the percentage of completion method, in conformity with Accounting Research Bulletin ("ARB") No. 45 and SOP 81 1.*

PRIVATE PLACEMENTS: The Company sold 63,666 shares of its restricted Rule 144 common stock in the amount of $955,000 through a private placement offering during the quarter ended September 30, 2000 pursuant to Rule 506 of Regulation D of the Securities and Exchange Act of 1933.

On January 8, 2001, the Company entered into an agreement for equity financing with Deephaven Capital Management ("Deephaven"). Deephaven acquired their shares of common stock in a private placement transaction which closed in two traunches. Under the terms of our securities purchase agreement with Deephaven, we issued 183,150 shares of common stock to Deephaven in connection with a first closing which occurred on January 8, 2001 for gross proceeds of $1 million. We also issued warrants to purchase an aggregate of up to 54,945 shares of common stock to Deephaven in the first closing at an exercise price of $6.83 per share. We issued 279,720 shares of common stock to Deephaven in connection with a second closing which occurred on February 20, 2001 for gross proceeds of $1 million. We also issued warrants to purchase an aggregate of up to 83,916 shares of common stock to Deephaven in the second closing at an exercise price of $4.47 per share. All warrants are exercisable for a period of five years from the date of issuance and have adjustment provisions for dilution events in connection with issuances of our common stock and other equivalents below the applicable warrant exercise price and for stock splits, stock dividends and similar transactions. Under the Deephaven securities purchase agreement, if we have a primary shelf registration statement declared effective, we are obligated to offer to Deephaven up to $6 million of our common stock (and warrants covering $1,800,000 worth of common stock) subject to the terms of the purchase agreement. We have filed a registration statement for a proposed offering which covers $30 million of our securities which was not effective as of the date of this propsectus which we may use to offer such additional shares and warrants to Deephaven. In addition, we will be required to issue additional shares of common stock to Deephaven if we issue common stock at a price below the price Deephaven paid for their shares in the first and second closings, respectively, prior to the 180th trading day following February 20, 2001. The Deephaven securities purchase agreement also provides that we will reimburse Deephaven for legal and other expenses if Deephaven becomes involved in any action, proceeding or investigation arising solely as a result of Deephaven acquiring our common stock under the purchase agreement.

Subject to certain exceptions, the purchase agreement restricts us from offering or selling any of our equity securities or similar instruments prior to November 17, 2001 without Deephaven's consent. Until the 180th day following the effective date of the registration statement, Deephaven has a right of first refusal on future issuances of our equity securities or similar instruments as described in the purchase agreement.

In connection with our sale of common stock pursuant to the Deephaven securities purchase agreement, we entered into a registration rights agreement pursuant to which, among other things, we agreed to use our best efforts to file a registration statement to register for resale the shares of common stock, including the shares of common stock issuable upon exercise of the warrants, by March 14, 2001 and have such registration statement declared effective by May 28, 2001. If the registration statement is not declared effective by May 28, 2001 or certain other events of default occur as described in the registration statement, we will have to pay to Deephaven liquidated damages in a monthly amount equal to 4% (2% in the event the registration statement is not declared effective by May 28, 2001) of the purchase price paid by Deephaven for the shares of common stock purchased pursuant to the purchase agreement up to an aggregate maximum of $400,000. The liquidated damages apply on a pro-rata basis for any portion of a month prior to the registration statement being declared effective or the curing of other events of default, as applicable. For some events of defaults, such as the sale of substantially all the assets of Netsol, a one-time payment of $400,000 is required. In addition, we agreed to indemnify Deephaven against certain liabilities, including liabilities arising under the Securities Act and Deephaven agreed to indemnify us against certain liabilities, including liabilities arising under the Securities Act.

In connection with our sale of common stock pursuant to the Deephaven securities purchase agreement, we paid an aggregate of $100,000 to Jesup & Lamont and issued warrants to purchase up to 9,158 shares of common stock at an exercise price of 6.83 per share in the first closing and up to 13,986 shares of common stock at an exercise price of $4.47 per share in the second closing. These warrants have the same terms as the warrants issued to Deephaven pursuant to the Deephaven securities purchase agreement. The shares of common stock issuable upon exercise of these warrants are being registered in this registration statement.

LOAN PAYABLE, STOCKHOLDER: A principal stockholder of the Company advanced funds for working capital during the quarter ended September 30, 2000. Effective

March 1, 2001, the unpaid outstanding loan balance of $425,611 was paid in full by the issuance of 115,420 restricted shares of the Company's common stock.

INTANGIBLES ASSETS: Accumulated depreciation at March 31, 2001 was $711,112 for products licenses, renewals, enhancements, copyrights, trademarks and tradenames, $272,579 for customer lists and $955,487 for goodwill. The Company has recorded an impairment loss of $1,236,593 in the current quarter. This is comprised of $541,588 for customer lists and $695,005 for goodwill. These purchased intangible assets were recorded resulting from the acquisition of Network Solutions Group in August 1999.

BUSINESS COMBINATIONS:

SUPERNET AG

On May 2, 2000, the Company issued 425,600 Rule 144 restricted common shares in exchange for 100% of the outstanding capital stock of SuperNet AG, a German Company. This business combination was accounted for using the pooling of interest method of accounting under APB Opinion No. 16, and accordingly, the accompanying financial statements have been restated to show the results of operations as if the combination had occurred at the beginning of all periods presented. These results are presented as a discontinued operation as discussed in the subsequent event footnote.

Effective March 1, 2001, the Company acquired Intereve Corporation, a Silicon Valley IT company with senior level architects and developers recruited from India. This acquisition was accounted for using the purchase method of accounting under APB Opinion No. 16, and accordingly, the purchase price was allocated to the assets purchased and liabilities assumed based upon their estimated fair values as determined by management on the date of acquisition, which approximated $410,000. The management of the Company allocated the entire purchase price to customer lists and is being amortized by use of the straight-line method over its estimated useful life from the date of acquisition. The purchase price is comprised of cash payouts over several months as certain deliverables are met. Since the acquisition did not constitute a significant acquisition and the proforma adjustments related to the acquisition are immaterial to the financial statement presentation as a whole, proforma financial information is not presented.

OTHER EVENTS: Effective October 1, 2000, the Company entered into a rental lease agreement to occupy office space. Pursuant to this agreement, the Company will pay rent of approximately $12,500 per month through July 31, 2007. The Company was required to secure an Irrevocable Stand-By Letter of Credit for the benefit of the Landlord in the amount of $250,000, which is included in other assets on the accompanying balance sheet. In the event the Company fails to renew the Letter of Credit as set forth in the Letter of Credit Agreement, the Landlord shall be entitled to draw on the Letter of Credit in full. The renewal of each annual Letter of Credit will be reduced by $35,714 per annum.

During September 2000, the Company opened a certificate of deposit with Merrill Lynch Bank USA in the amount of $500,000, as security for an Irrevocable Standby Letter of Credit for the benefit of one of its customers. This letter of credit expires by December 31, 2003 and is included in other assets on the accompanying balance sheet.

In the fourth quarter, the Company expects to incur costs in connection with a proxy contest instigated by a group of four dissident shareholders led by Blue Water Master Fund, L.P.

SUBSEQUENT EVENT: On May 1, 2001, management of the Company committed to a formal plan to dispose of Supernet AG, a division or segment of the Company, through a sale of all the issued and outstanding shares of Supernet AG. The expected closing date is May 21, 2001. The Company is following the guidance of APB No. 30 and Emerging Issues Task Force Abstract ("EITF") 95-18 in the accounting for and disclosure of this disposal. The losses from operations of this discontinued division and the loss on the disposal of the division is presented on the face on the Statement of Operations for all periods presented. There are no applicable corresponding income tax effects which apply to this disposal. Revenues applicable to this discontinued division were $543,534 for the nine months ended March 31, 2001 and $309,389 for the nine months ended March 31, 2000. The net assets as of March 31, 2001 have been adjusted for in the current quarter in accordance with the terms of the disposition.

<TABLE>
<CAPTION>

Net Assets of Discontinued Operations:	March 31, 2001	March 31, 2000
<S>	<C>	<C>
Current Assets	$1,002,047	$932,214
Property and equipment, net	$135,140	$170,973
Total Assets	$1,137,787	$1,103,187
Current Liabilities	$683,255	$255,229
Total Liabilities	$683,255	$255,229
Net assets of discontinued operation	$454,532	$847,958

</TABLE>

RECLASSIFICATIONS: Certain accounts balances from prior quarters have been reclassified to conform with present quarter and year to date presentation.

PART I - FINANCIAL INFORMATION

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

GENERAL

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 helped clients use I/T more efficiently in order to improve their operations and profitability and to achieve business results. Network Solutions 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. The Company is in the process of attaining SEI CMM Level 3 accreditation. This is one of the highest level of recognition for quality and best practices a software house can achieve.

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 to achieve its customers' strategic objectives. Its service offerings include outsourcing, systems integration, and I/T and management consulting and other professional services, including e-business solutions.

Outsourcing involves operating all or a portion of a customer's technology infrastructure, including systems analysis, 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 Company also develops sophisticated software systems for the lease and finance industry. NetSol has developed a fully integrated leasing and finance package which is a series of five products that can be marketed in an integrated system. These products are ePOS, PMS, SMS, CMS, and WFS. These five applications form the full suite of asset based lending Enterprise Resource Planning applications. These applications can run almost the entire operations of a captive leasing company.

NetSol ePOS is a browser-based Point of Sale system that is used by the dealership and other outlets. ePOS users create quotations and financing applications for the customers using predefined Financial Products. The proposal is submitted to Back Office (PMS) for approval. After analysis, the proposal is sent back to ePOS system with a final decision.

Proposal Management System (PMS) provides Finance/Leasing Companies with the ability to quickly assess the worthiness of an applicant applying for a loan or a lease. The System is equipped with strong workflow management, integrated link to Credit Rating Agencies, and automated point scoring strategy for automatic approval/rejection/referral; can be customized to link to any Point of Sale System; and has the ability to integrate any vehicle data provider such as Glass's Guide in Europe and Australia.

The NetSol Wholesale Finance System (WFS) is developed to automate and manage the Whole Sale Finance (Floor Plan) activities of a Finance Company. The design of the system is based on the concept of One Loan One Asset to facilitate Asset Tracking and Costing of an asset. The system covers Credit Limit Request, Payment of Loan, Billing, and Settlement, Auditing of Stocks, Dealer Information and ultimately the pay-off functions.

Settlement Management System (SMS) verifies the signed document sent by the dealer/broker/third party against the information stored in the Proposal Management System database. Settlement Management System verifies all calculations before loading the contract into the Contract Management System. Other main features are collection of first rental and disbursement of funds to dealers, insurance companies and other third parties. Workflow software is part of Settlement Management System and it enables the users of Settlement Management System to communicate with Proposal Management workflow or within its own workgroup.

The Contract Management System (CMS) manages lease contracts for financing of vehicles from inception until completion. The leasing company is able to establish, maintain and terminate such financial contracts. Contracts may include added value services such as vehicle maintenance and/or insurance premiums. It furthermore incorporates functional extensions such as litigation, remarketing of vehicles, securitization of a portfolio and post dated check management.

These are traditionally complex business applications and require a great deal of industry experience both in the development as well as implementation stages. NetSol, over the years, has developed core competencies in the asset based lending software space. These are extremely sought after skills shared in a team of approximately 30 business consultants. NetSol is able to demand a premium for *these consultants and leverages this competency when bidding for new business.*

Typically, the sales cycle for these products is anywhere between six to twelve months and NetSol derives its income both from selling the license to use the products as well as customization. License fees can vary between $75,000 to 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 as certain deliverables are met and can take from six months to two years before a project is fully completed.

MARKETING AND SELLING

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

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

The Company generally enters into written commitment letters with clients at or around the time it commences work on a project. These commitment letters typically contemplate that NetSol and the client will subsequently enter into a more detailed agreement, although the client's obligations under the commitment letter are not conditioned upon the execution of the later agreement. These written commitments and subsequent agreements contain varying terms and conditions and the Company does not generally believe it is appropriate to characterize them as consisting of backlog. In addition, because these written commitments and agreements often provide that the arrangement can be terminated with limited advance notice or penalty, the Company does not believe the projects in process at any one time are a reliable indicator or measure of expected future revenues.

NetSol provides its services primarily to clients in global commercial industries. In the global commercial area, the Company's service offerings are marketed to clients in a wide array of industries including schools; automotive; chemical; tiles/ceramics; Internet marketing; software; banks and financial services.

CHANGES IN FINANCIAL CONDITION

Net sales were $1,850,249 for the third quarter of fiscal 2001, which ended March 31, 2001, and were comparable to the sales of the same quarter for the previous year of $1,858,348(restated due to pooling of interest accounting). Current year to date sales are $5,761,234, a 14% increase from year to date sales for the comparable period of fiscal 2000. The Company's software house in Lahore, Pakistan continued to provide strong sales numbers in the current quarter. The Company's subsidiary, NetSol USA, also reported a strong third quarter in sales. The Company is further positioning itself to market these licenses to the North American and other global markets through NetSol Professional Services. The Company anticipates that solid growth will occur in the remainder of fiscal 2001 for these two subsidiaries due to product maturity and market demand with several existing customers, Voicestream Wireless, Daimler-Chrysler Financial Services and Citibank (Pakistan). Effective March 1, 2001, the Company acquired Intereve Corporation, a Silicon Valley IT company with senior level architects and developers recruited from India. The purchase price is comprised of cash payouts over several months as certain deliverables are met. The Company has recognized the sales for the month of March 2001 in the third quarter as they pertain to Intereve.

The gross profit has remained strong and was $942,019 in the quarter ending March 31, 2001 and $3,036,392 for the current fiscal year to date. Cost of revenues for the quarter ending March 31, 2001 was $908,230 and $2,724,842 for the current fiscal year to date. Gross profit for the current quarter of %approximately 51% is in line with the current fiscal year to date percentage. The Company has seen its gross profit percentage decline from approximately 66% in the comparable nine month period of last year due to market competition and an increase of direct labor costs. The

Company is continuing to negotiate better pricing on its new agreements which provides for higher margins.

Operating expenses were $3,418,137 for the quarter ending March 31, 2001. This compares with $1,919,625(restated) for the quarter ending March 31, 2000. The Company has divested itself of its German subsidiary, Supernet AG. The terms of the divestiture call for the Company to pay a one-time fee of approximately $160,000. The Company has recorded one-time charge to earnings *of approximately $615,000, which includes the one-time fee as well as a write-off of net assets. As a result of this action, the Company was able to divest itself of more than $600,000 of liabilities. The formal agreement was signed on May 1, 2001, and will be closed on May 21. The Company, in following professional accounting literature, has recorded this divestiture in the third quarter ended March 31, 2001 as a discontinued operation. The Company is moving forward on its previoulsy announed intentions to significantly scale down its Network Solutions Group operations, a subsidiary in the U.K. This was an acquisition made by NetSol in August 1999, and the terms and representations surrounding this acquisition are presently being litigated as disclosed in previous filings. As a result of this scaling down, the Company is recording a one time non-cash charge to earnings in the third quarter ended March 31, 2001 of $1,236,593 for impairment losses on purchased intangible assets. This impairement loss is included in operating expenses for the quarter and year to date totals. The Company's customer base has continued to be negatively impacted from the overall economic downturn which has resulted in making continuing provisions for potential uncollectable accounts. Operating results for the March 31, 2000 quarter were impacted as the Company applied pooling of interest accounting rules to its acquisition of Supernet AG of Germany and Abraxas. Its consolidated statement of operations includes the operations of both Abraxas and SuperNet AG for quarters ended March 31, 2001 and March 31, 2000(restated).*

Net loss from continuing operations was $2,375,269 for the quarter ended March 31, 2001 as compared to $797,603 (restated) for the quarter ended March 31, 2000. The current year loss from continuing oprations includes a one time non-cash charge for impairment losses related to purchased intangible assets. This resulted in a net loss per share from continuing operations, basic and diluted, of $0.21 for the quarter ended March 31, 2001 as compared with $0.08 (restated) for the quarter ended March 31, 2000. Net loss per share from discontinued operations was ($.08) for the quarter ended March 31, 2001 and ($.11) for the nine months ended March 31, 2001. Discontinued operations losses is presented as required for all periods presented.

The Company's cash position was $1,763,559 at March 31, 2001. This is presented on the financial statements as $1,013,559 as cash and cash equivalents, and a total $750,000 as certificates of deposit which is included in other assets.

In the fourth quarter, the Company expects to incur costs in connection with a proxy contest instigated by a group of four dissident shareholders led by Blue Water Master Fund, L.P.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001 the Company's working capital (current assets less current liabilities) totaled $2.41 million, a increase from 2.26 million at December 31, 2000. The Company has taken recent action to re-focus on its profitable operations and scale back on loss making operations and anticipated capital expenditures. Two of the Company's profitable operating subsidiaries, NetSol eR and NetSol USA, are continuing to expand their revenue base both by means of IT outsourcing and software development projects. The Company completed on March 1, 2001, its acquisition of Intereve Corporation, based in the Silicon Valley. Intereve has a history of generating positive cash flows. The Company anticipates that its revenue base will be enhanced through the leveraging of the contracts and resources that were acquired from Intereve. The majority of the contracts for NetSol eR and NetSol USA are time and materials contracts which provides ample liquidity to fund specific working capital requirements. In generating this revenue growth, the Company anticipates that capital expenditures requirements can be kept at low levels. The Company continues to estimate that it will be able to reduce its current monthly rate of using working capital beginning in its fiscal 4th quarter and into its 1st quarter of fiscal 2002 by as much as half. The Company completed in this quarter a $2 million round of financing with Deephaven Capital Management ("Deephaven"). In addition, the Company filed a Registration Statement on Form S-3/A with the Securities and Exchange Commission on February 2, 2001 for a proposed offering of $30 million from the sale of its securities. These securities are proposed to be offered and sold from time to time on behalf of the Company in the form of common stock and warrants to purchase common stock. The Company is continuing to pursue the establishment of a $1 million revolving credit facility with two separate financial institutions and also currently negotiating various additional forms of debt financing surrounding the completion of the Company's IT campus in Lahore. In the opinion of management, the Company believes that the impact from certain software sales contracts will have a negative impact upon its liquidity in the short term; however, management does believe that its anticipated positive cash flows from re-focusing on its profitable operations, a reduction in the Company's projected capital expenditure requirements for the next twelve months, along with the financing options being pursued, cash flows will be sufficient for the foreseeable future to manage the short term liquidity impact from these specific software contracts, finance anticipated working capital requirements and fund limited capital expenditures.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is currently party to one dispute filed by a former Officer, which involves litigation. The plaintiff filed a Complaint for Declaratory Relief on May 9, 2000 in the Los Angeles Superior Court (Case No.

BC229642). The Plaintiff contends that, on or about May 29, 1998, he was granted 120,000 options at a $0.01 per share exercise price. The Company has responded that options were originally granted by the Board to all board members but later all of the directors agreed to forego such grant, and none of the directors received such options as the Plaintiff claims were granted to him. The parties are in the discovery stage of the proceeding. The Company denies the allegations and is currently defending the action.

The Company is currently involved in proceedings with Adrian Cowler and The Surrey Design Partnership Limited, the former owners of Network Solutions Group Limited ("NSGL"). By a written agreement dated 13th August 1999 the Claimants agreed to sell the entire issued share capital of NSGL to the Company. The consideration for the sale was specified newly issued shares in the Company. It was agreed that the Company's lawyers would hold these shares in escrow for one year and within seven days of the end of the one-year period the Company would deliver shares to the Claimants' solicitors. If the Company were to make any written claim (within the one year period) then the Company's lawyers were to withhold delivery of the consideration shares pending final adjudication of the claim.

On August 11, 2000 NetSol delivered a written claim to the Claimants based on misrepresentation as to the financial information provided to the Company upon the acquisition and since that date the Company's lawyers have withheld delivery of the consideration shares. The Claimants have now commenced proceedings to seek delivery of the consideration shares and/or damages. The Company has counterclaimed and alleges that it was induced to enter into the agreement by pre-contractual misrepresentations as to financial information, customer base and goodwill. The Company's primary claim is for rescission of the agreement and, in the alternative, alleges that the Claimants were in breach of a series of warranties and failed to deliver draft figures for inclusion in the Completion Accounts.

The Claimants filed its Particulars of Claim on October 2, 2000 and the Company served its Defense and Counterclaim on December 13, 2000. The parties are currently in the disclosure stage of proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The Company did not receive any additional proceeds from its Public Offering since its Annual Report. The Company has received approximately $27,000 from 4,500 warrants exercised from the IPO in the quarter ended March 31, 2001.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

None.

(b) REPORT ON FORM 8-K dated January 23, 2001.

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 INTERNATIONAL, INC.
(Registrant)

Date: May 15, 2001 *   /s/ Najeeb U. Ghauri*

NAJEEB U. GHAURI
CEO

/s/ Syed Husain

SYED HUSAIN
Chief Financial Officer