

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO  
FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

NETSOL INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)

NEVADA 95-4627685  
(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

24025 PARK SORRENTO, SUITE 220, CALABASAS, CA 91302  
(818) 222-9195  
(Address, including zip code, and telephone number, including  
area code, of registrants' principal executive offices)

MALEA FARSAI, ESQ.  
GENERAL COUNSEL  
NETSOL INTERNATIONAL, INC.  
24025 PARK SORRENTO, SUITE 220  
CALABASAS, CALIFORNIA 91302  
(818) 222-9195  
(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:  
FROM TIME TO TIME AFTER THIS REGISTRATION STATEMENT IS EFFECTIVE.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. / /

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. /X/

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / \_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / \_\_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

CALCULATION OF REGISTRATION FEE

<TABLE>  
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TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT (1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
<S> Common Stock, \$.001 par value	<C> 624,875	<C> \$3.32	<C> \$2,074,585	<C> \$519

</TABLE>

(1) Based upon the average of the high and low sales prices of the common stock as reported on the Nasdaq Small Cap Market on March 9, 2001 and estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933.

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION Dated March 14, 2001 The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

NETSOL INTERNATIONAL, INC.

624,875 Shares of Common Stock

This prospectus is part of the registration statement we filed with the Securities and Exchange Commission using a "shelf" registration process. This means:

- The selling securityholders set forth on page 10 of this prospectus may issue up to 624,875 shares of our common stock from time to time.
- You should read this prospectus and any prospectus supplement carefully before you invest.

Our common stock, \$.001 par value is listed on the Nasdaq SmallCap Market, under the symbol "NTWK". On March 9, 2001, the last reported sale price for our common stock was \$3 9/32 per share.

The selling securityholders may offer these shares directly to purchasers, through agents that they designate from time to time or to or through underwriters or dealers. We will not receive any of the proceeds from the sale of such shares.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT. PLEASE CAREFULLY CONSIDER THE "RISK FACTORS" BEGINNING ON PAGE 3 OF THIS PROSPECTUS.

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Our principal executive offices are located at 24025 Park Sorrento, Suite 220, Calabasas, CA 91302 and our telephone number is (818) 222-9195. Our web site is located at [www.netsol-intl.com](http://www.netsol-intl.com). Information contained in our web site is not part of this prospectus.

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NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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THE DATE OF THIS PROSPECTUS IS , 2001

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## RISK FACTORS

An investment in the shares of common stock offered by this prospectus involves a high degree of risk. You should carefully review the following risk factors as well as the other information set forth in this prospectus before making an investment.

SOME OF THE INFORMATION IN THIS PROSPECTUS OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE SUBSTANTIAL RISKS AND UNCERTAINTIES. YOU CAN IDENTIFY THESE STATEMENTS BY FORWARD-LOOKING WORDS SUCH AS "MAY," "WILL," "EXPECT," "ANTICIPATE," "BELIEVE," "ESTIMATE" AND "CONTINUE" OR SIMILAR WORDS. YOU SHOULD READ STATEMENTS THAT CONTAIN THESE WORDS CAREFULLY BECAUSE THEY:

- DISCUSS OUR FUTURE EXPECTATIONS;
- CONTAIN PROJECTIONS OF OUR FUTURE OPERATING RESULTS OR OF OUR FUTURE FINANCIAL CONDITION; AND/OR
- STATE OTHER "FORWARD-LOOKING" INFORMATION.

WE BELIEVE IT IS IMPORTANT TO COMMUNICATE OUR EXPECTATIONS TO OUR INVESTORS. THERE MAY BE EVENTS IN THE FUTURE, HOWEVER, THAT WE ARE NOT ACCURATELY ABLE TO PREDICT OR OVER WHICH WE HAVE NO CONTROL. THE RISK FACTORS LISTED IN THIS SECTION, AS WELL AS ANY CAUTIONARY LANGUAGE IN THIS PROSPECTUS, PROVIDE EXAMPLES OF RISKS, UNCERTAINTIES AND EVENTS THAT MAY CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE EXPECTATIONS WE DESCRIBE IN OUR FORWARD-LOOKING STATEMENTS. BEFORE YOU INVEST IN OUR COMMON STOCK, YOU SHOULD BE AWARE THAT THE OCCURRENCE OF ANY OF THE EVENTS DESCRIBED IN THESE RISK FACTORS AND ELSEWHERE IN THIS PROSPECTUS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS AND THAT UPON THE OCCURRENCE OF ANY OF THESE EVENTS, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

IF WE DO NOT ATTRACT AND RETAIN QUALIFIED PROFESSIONAL STAFF, WE MAY NOT BE ABLE TO ADEQUATELY PERFORM OUR CLIENT ENGAGEMENTS, WHICH COULD LIMIT ACCEPT OUR ABILITY TO NEW CLIENT ENGAGEMENTS.

Our business is labor intensive and our success depends in large part upon our ability to attract, retain, train and motivate highly skilled employees. Because of the rapid growth in the Information Technology or I/T sector, there is intense competition for employees who have modeling, creative design, technical and program management experience. In addition, the Internet has created many opportunities for people with the skills we seek to form their own companies or join startup companies and these opportunities frequently offer the potential for significant future financial profit through equity incentives which we cannot match. We may not be successful in attracting a sufficient number of highly skilled employees in the future, or in retaining, training and motivating the employees we are able to attract. Any inability to attract, retain, train and motivate employees could impair our ability to adequately manage and complete existing projects and to bid for or accept new client engagements.

IF WE DO NOT MANAGE OUR GROWTH EFFECTIVELY, OUR OPERATING RESULTS WILL BE ADVERSELY AFFECTED.

Our growth has placed significant demands on our management and other resources. Our revenues increased approximately 100% from \$3.5 million (restated) in 1999 to \$7.0 million in 2000. Our staff increased from 112 full-time employees at June 30, 1999 to 425 at December 31, 2000. Our future success will depend on our ability to manage our growth effectively, including by:

- developing and improving our operational, financial and other internal systems;
- integrating and managing acquired businesses, joint ventures and strategic investments;
- training, motivating and managing our employees;

- estimating fixed-price fees and project timeframes accurately;
- maintaining high rates of employee utilization; and
- maintaining project quality and client satisfaction.

WE HAVE SIGNIFICANT FIXED OPERATING COSTS, WHICH MAY BE DIFFICULT TO ADJUST IN RESPONSE TO UNANTICIPATED FLUCTUATIONS IN REVENUES.

A high percentage of our operating expenses, particularly personnel and rent, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number, or progress toward completion, of our projects may cause significant variations in operating results in any particular quarter and could have a material adverse effect on operations for that quarter.

An unanticipated termination of a major project, a client's decision not to proceed with a project we anticipated, or the completion during a quarter of several major client projects could require us to maintain underutilized

employees and could therefore have a material adverse effect on our business, financial condition and results of operations. Our revenues and earnings may also fluctuate from quarter to quarter based on such factors as:

- the contractual terms and timing of completion of projects;
- any delays incurred in connection with projects;
- the adequacy of provisions for losses and bad debts;
- the accuracy of our estimates of resources required to complete ongoing projects; and
- general economic conditions.

IF BUSINESSES DO NOT INCREASE THEIR USE OF THE INTERNET AS A MEANS FOR CONDUCTING COMMERCE, OUR REVENUES WILL BE ADVERSELY AFFECTED.

One of the sources of our revenue is use of our software on-line. We have spent our resources to develop our software so that it will be used via the Internet. Our future success depends on the increased acceptance and use of the Internet as a means for conducting commerce. If commerce on the Internet does not continue to grow, or grows more slowly than expected, revenue growth would slow or decline and our business, financial condition and results of operations would be materially adversely affected. Consumers and businesses may delay adoption of the Internet as a viable medium for commerce for a number of reasons not within our control, including:

- inadequate network infrastructure;
- delays in the development of Internet enabling technologies and performance improvements;
- delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity;
- delays in the development of security and authentication technology necessary to effect secure transmission of confidential information;
- changes in, or insufficient availability of, telecommunications services to support the Internet; and
- failure of companies to meet their customers' expectations in delivering goods and services over the Internet.

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INTERNATIONAL EXPANSION OF OUR BUSINESS COULD RESULT IN FINANCIAL LOSSES DUE TO CHANGES IN FOREIGN ECONOMIC CONDITIONS OR FLUCTUATIONS IN CURRENCY AND EXCHANGE RATES.

We expect to continue to expand our international operations. We currently have offices in the United Kingdom, Germany, Pakistan and Australia. We have limited experience in marketing, selling and providing our services internationally. International operations are subject to other inherent risks, including:

- recessions in foreign countries;
- fluctuations in currency exchange rates;
- difficulties and costs of staffing and managing foreign operations;
- reduced protection for intellectual property in some countries;
- political instability or changes in regulatory requirements or overthrowing the current government in the foreign countries; and
- U.S. imposed restrictions on the import and export of technologies.

WE DEPEND HEAVILY ON A LIMITED NUMBER OF CLIENT PROJECTS AND THE LOSS OF ANY WOULD ADVERSELY AFFECT OUR OPERATING RESULTS.

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of clients for whom we perform large projects. For the year ended June 30, 2000, our four largest clients accounted for over 30% of our revenues. In addition, revenues from a large client may constitute a significant portion of our total revenues in a particular quarter. The loss of any principal client for any reason, including as a result of the acquisition of that client by another entity, could have a material adverse effect on our business, financial condition and results of operations.

IF WE ARE UNABLE TO ACHIEVE ANTICIPATED BENEFITS FROM ACQUISITIONS, JOINT VENTURES AND STRATEGIC INVESTMENTS, OUR BUSINESS COULD BE ADVERSELY AFFECTED.

During the past year, we have completed four acquisitions and entered into one alliance. The anticipated benefits from these and future acquisitions,

joint ventures and strategic investments may not be achieved. For example, when we acquire a company, we cannot be certain that customers of the acquired business will continue to do business with us or that employees of the acquired business will continue their employment or become well integrated into our operations and culture. The identification, consummation and integration of acquisitions, joint ventures and strategic investments require substantial attention from management. The diversion of the attention of management relating to these activities, as well as any difficulties encountered in the integration process, could have an adverse impact on our business, financial condition and results of operations.

**IF ANY CLIENT UNEXPECTEDLY TERMINATES THEIR CONTRACTS WITH US OUR BUSINESS COULD BE ADVERSELY AFFECTED.**

Our clients, with limited advance notice and without significant penalty, can cancel some of our contracts. Termination by any client of a contract for our services could result in a loss of expected revenues and additional expenses for staff which were allocated to that client's project. The cancellation or a significant reduction in the scope of a large project could have a material adverse effect on our business, financial condition and results of operations.

**OUR STOCK PRICE IS VOLATILE AND MAY RESULT IN SUBSTANTIAL LOSSES FOR INVESTORS.**

The trading price of our common stock could be subject to wide fluctuations in response to:

- quarterly variations in operating results and our achievement of key business metrics;

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- changes in earnings estimates by securities analysts;
- any differences between reported results and securities analysts' published or unpublished expectations;
- announcements of new contracts or service offerings by us or our competitors;
- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors; and
- general economic or stock market conditions unrelated to our operating performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of their securities. This type of litigation could result in substantial costs and a diversion of management attention and resources.

**IF WE DO NOT KEEP PACE WITH TECHNOLOGICAL CHANGES, OUR COMPETITIVE POSITION WILL SUFFER.**

Our markets and the technologies used in our solutions are characterized by rapid technological change. Failure to respond in a timely and cost-effective way to these technological developments would have a material adverse effect on our business, financial condition and results of operations. We expect to derive a substantial portion of our revenues from providing software that is based upon leading technologies and that is capable of adapting to future technologies. As a result, our success will depend on our ability to offer services that keep pace with continuing changes in technology, evolving industry standards and changing client preferences. We may not be successful in addressing future developments on a timely basis. Our failure to keep pace with the latest technological developments would have a material adverse effect on our business, financial condition and results of operations.

**WE FACE SIGNIFICANT COMPETITION IN MARKETS THAT ARE NEW AND RAPIDLY CHANGING.**

The markets for the services we provide are highly competitive. We believe that we currently compete principally with strategy consulting firms, Internet professional services firms, systems integration firms, software developers, technology vendors and internal information systems groups. Many of the companies that provide services in our markets have significantly greater financial, technical and marketing resources than we do and generate greater revenues and have greater name recognition than we do. In addition, there are relatively low barriers to entry into our markets and we have faced, and expect to continue to face competition from new entrants into our markets.

We believe that the principal competitive factors in our markets include:

- ability to integrate strategy, experience modeling, creative design and technology services;
- quality of service, speed of delivery and price;
- industry knowledge;
- sophisticated project and program management capability; and
- Internet technology expertise and talent.

We believe that our ability to compete also depends in part on a number of competitive factors outside our control, including:

- the ability of our competitors to hire, retain and motivate professional staff;

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- the development by others of Internet services or software that is competitive with our solutions; and
- the extent of our competitors' responsiveness to client needs.

There can be no assurance that we will be able to compete successfully in our markets.

IF WE ARE UNABLE TO PROTECT OUR PROPRIETARY SOFTWARE, OUR BUSINESS COULD BE ADVERSELY AFFECTED.

Our success depends, in part, upon our proprietary software and other intellectual property rights. We rely upon a combination of trade secrets, nondisclosure and other contractual arrangements, and copyright and trademark laws to protect our proprietary rights. We enter into confidentiality agreements with our employees, generally require that our consultants and clients enter into these agreements, and limit access to and distribution of our proprietary information. There can be no assurance that the steps we take in this regard will be adequate to deter misappropriation of our proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. In addition, although we believe that our services and products do not infringe on the intellectual property rights of others, there can be no assurance that infringement claims will not be asserted against us in the future, or that if asserted that any infringement claim will be successfully defended. A successful claim against us could materially adversely affect our business, financial condition and results of operations. We may not have the right to resell or reuse software developed for specific clients. A portion of our business involves the development of software for specific client engagements. Ownership of these solutions is the subject of negotiation and is frequently assigned to the client, although we may retain a license for certain uses. Some clients have prohibited us from marketing the software developed for them for specified periods of time or to specified third parties and there can be no assurance that clients will not demand similar or other restrictions in the future. Issues relating to the ownership of and rights to use solutions can be complicated and there can be no assurance that disputes will not arise that affects our ability to resell or reuse these solutions. Any limitation on our ability to resell or reuse a solution could require us to incur additional expenses to develop new solutions for future projects.

WE ARE DEPENDENT ON OUR KEY PERSONNEL.

Our success will depend in large part upon the continued services of a number of key employees, including Messrs. Salim Ghauri, Najeeb Ghauri and Naeem Ghauri. The loss of the services of either of these or of one or more of our other key personnel could have a material adverse effect on our business, financial condition and results of operations. In addition, if one or more of our key employees resigns from NetSol to join a competitor or to form a competing company, the loss of such personnel and any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on our business, financial condition and results of operations. In the event of the loss of any personnel, there can be no assurance that we would be able to prevent the unauthorized disclosure or use of our technical knowledge, practices or procedures by such personnel.

WE DO NOT PAY CASH DIVIDENDS.

We have never paid dividends and do not presently intend to pay any dividends in the foreseeable future.

FUTURE SALES OF OUR COMMON STOCK MAY CAUSE OUR STOCK PRICE TO DECLINE.

Future sales of our common stock could negatively impact the market price of our common stock. Shares of our common stock that have not been previously traded in the public market but may at some time be sold in the public market include:

- shares held by affiliates;
- shares issued or to be issued in acquisitions;
- shares issuable upon conversion of convertible notes; and

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- shares to be issued pursuant to stock options and warrants.

The aggregate number of such shares is much greater than the number of shares of our common stock which have previously traded on the public market. There is only a limited trading market for our common stock and it is possible that you may not be able to sell your shares easily. There is currently only a limited trading market for our common stock. Our common stock trades on the Nasdaq SmallCap Market under the symbol "NTWK" with very limited trading volume. There can be no assurance that a substantial trading market will ever develop (or be sustained, if developed) for our common stock upon completion of this offering, or that purchasers will be able to resell their securities or otherwise liquidate their investment without delay.

THE FUTURE ISSUANCE OF COMMON STOCK UPON EXERCISE OF OPTIONS AND WARRANTS MAY DEPRESS THE PRICE OF OUR COMMON STOCK.

As of December 31, 2000, there were outstanding options to purchase an aggregate of 2,391,750 shares of our common stock under our 1999 and 1997 option plans and outstanding warrants to purchase an aggregate of 125,092 shares of common stock. In addition, in connection with a recent financing, we issued to the selling securityholders warrants to purchase an aggregate of 63,015, 79,197 and 19,973 shares of our common stock in January, February and March of 2001, respectively.

During the respective terms of the warrants and options granted or to be granted under our option plans, the holders thereof are given an opportunity to benefit from a rise in the market price of the common stock, with a resultant dilution of the interests of existing stockholders. The existence of these warrants and options could make it more difficult for us to obtain additional financing while such securities are outstanding. The holders may be expected to exercise their rights to acquire common stock and sell at a time when we would, in all likelihood, be able to obtain needed capital through a new offering of securities on terms more favorable than those provided by these warrants and options.

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#### THE COMPANY

NetSol International, Inc. (formerly Mirage Holding, Inc.) was founded in 1997 and is now in the business of information technology or I/T services. NetSol 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. or NetSol PK develops the majority of the software for NetSol. NetSol PK was the first company in Pakistan to achieve the ISO 9001 accreditation. NetSol is in the process of attaining SEI CMM Level 3 accreditation. This is one of the highest levels of recognition for quality and best practices that a software house can achieve.

NetSol 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.

Our principal executive offices are located at 24025 Park Sorrento, Suite 220, Calabasas, California 91302 and our telephone number is (818) 222-9195.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this prospectus are forward-looking statements concerning our operations, economic performance and financial condition. Forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, are included, for example, in the discussions about:

- our strategy;
- product sales and revenues;
- new product development or product introduction;
- expenses, earnings and net income; and
- our operational and legal risks.

These statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied in those statements. Factors that could cause such differences include, but are not limited to, those discussed under "Risk Factors".

#### USE OF PROCEEDS

As the shares of our common stock to which this prospectus relates are offered by the selling securityholders and not by us, we will not receive any of the proceeds from the resales of those shares.

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#### SELLING SECURITYHOLDERS

The following table sets forth the selling securityholders, and the number of shares of our common stock beneficially owned by them as of March 13, 2001 which may be offered pursuant to this prospectus. This information is based upon information provided to us by the named selling securityholders. Given that the selling securityholders may offer all, some or none of their respective shares of common stock, no definitive estimate as to the number of shares that will be held by the selling securityholders after such offering can be provided.

Deephaven Private Placement Trading Ltd. is a private investment fund that is owned by all of its investors and managed by Deephaven Capital Management LLC. Deephaven Capital Management LLC, of which Mr. Irvin Kessler is the fund manager, has voting and investment control over the shares listed below owned by Deephaven Private Placement Trading Ltd. Deephaven Capital Management LLC is an indirect subsidiary of Knight Trading Group, Inc.

Each of the selling securityholders has represented to us that it did, or will with respect to the common stock issuable upon the exercise of warrants, acquire the securities listed opposite its name below in the ordinary course of business, and that it does not have any agreement or understanding, directly or indirectly, with any person to distribute those securities.

<TABLE>  
<CAPTION>

SELLING STOCKHOLDERS -----	SHARES BENEFICIALLY OWNED BEFORE OFFERING		NUMBER OF SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER (1)	PERCENT (2)		NUMBER (3)	PERCENT
<S>	<C>	<C>	<C>	<C>	<C>
Deephaven Private Placement Trading Ltd.	601,731 (4)	*	601,731 (4)	0	*
Jesup & Lamont Securities Corporation	23,144 (5)	*	23,144 (5)	0	*

</TABLE>

\* Less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that the selling stockholders have the right to acquire pursuant to the exercise of warrants and options exercisable within 60 days are deemed to be outstanding and beneficially owned by the person holding the warrants for the purpose of computing the number of shares beneficially owned.
- (2) Percentage ownership is based on 11,580,497 shares of common stock outstanding as of March 9, 2001.
- (3) Assumes the sale of all shares of common stock offered hereby.
- (4) Includes 138,861 shares of common stock issuable upon the exercise of warrants.
- (5) Represents shares of common stock issuable upon the exercise of warrants.

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#### GENERAL DESCRIPTION OF SECURITIES

As of the date of this prospectus, we are authorized to issue up to 25,000,000 shares of common stock. As of March 9, 2001, we had 11,580,497 shares of common stock issued and outstanding.

#### DIVIDENDS

The holders of common stock are entitled to receive dividends when, as and if declared by our board of directors, out of funds legally available for their payment.

#### RIGHTS UPON LIQUIDATION

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of common stock will be entitled to share equally in any of our assets available for distribution after the payment in full of all debts and distributions and after the holders of all series of outstanding preferred stock, if any, have received their liquidation preferences in full.

#### VOTING RIGHTS

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of stockholders.

#### MISCELLANEOUS

The holders of common stock are not entitled to redemption rights. Shares of common stock are not convertible into shares of any other class of capital stock. Compushare, Inc. is the transfer agent and registrar for our common stock. Our common stock is traded on the Nasdaq Small Cap Market under the symbol "NTWK."

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#### PLAN OF DISTRIBUTION

The selling securityholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock offered pursuant to this prospectus on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling securityholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as



principal to facilitate the transaction;

- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales
- broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling securityholders may also sell shares under Rule 144 under the Securities Act of 1933, if available, rather than under this prospectus.

The selling securityholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling securityholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. The selling securityholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their shares other than ordinary course brokerage arrangements, nor is there an underwriter or coordinating broker acting in connection with the proposed sale of shares by the selling securityholders.

Broker-dealers engaged by the selling securityholders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling securityholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling securityholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling securityholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act of 1933 in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933.

We are required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of counsel to the selling securityholders. We have agreed to indemnify the selling securityholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933.

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#### LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Malea Farsai, Esq. General Counsel of NetSol International, Inc.

#### EXPERTS

The consolidated financial statements incorporated by reference in this prospectus have been audited by Stonefield Josephson, Inc., Saeed Kamran Patel & Co., and Mazars Neville Russell, independent public accountants, as indicated in their reports with respect thereto and are incorporated herein by reference in reliance upon the authority of said firms as experts in giving said reports.

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#### WHERE YOU CAN FIND MORE INFORMATION

**GOVERNMENT FILINGS.** We file annual, quarterly and special reports and other information with the Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to you free of charge at the SEC's web site at <http://www.sec.gov>. Our web site can be found at <http://www.netsol-intl.com>. Information contained in our web site is not part of this prospectus.

**STOCK MARKET.** The common shares are traded on the Nasdaq SmallCap Market. Materials filed by us can be inspected at the offices of the National Association of Securities Dealers, Inc. at 1735 K Street, N.W., Washington, D.C. 20006.

**INFORMATION INCORPORATED BY REFERENCE.** The SEC allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede previously filed information, including information

contained in this prospectus.

We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until this offering has been completed:

- our Annual Report on Form 10-KSB (File No. 0-22773) for the year ended June 30, 2000 as filed with the SEC on October 13, 2000; and Amendment No. 1 to our Annual Report on Form 10-KSB/A (File No. 0-22773) for the year ended June 30, 2000 and filed with the SEC on February 2, 2001;
- our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000 as filed with the SEC on November 14, 2000; and Amendment No. 1 to our Quarterly Report on Form 10-QSB/A for the quarter ended September 30, 2000 and filed with the SEC on February 2, 2001;
- our Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 as filed with the SEC on February 14, 2001;
- our Current Reports on Form 8-K dated July 25, 2000, October 25, 2000 and January 23, 2001; and
- the description of our common stock, which is contained in our registration statement filed on Form 8-A filed on June 30, 1996 as amended by Form 8-A/A filed on November 21, 1997.

You may request free copies of these filings by writing or telephoning us at the following address:

Rick Poole  
NetSol International, Inc.  
24025 Park Sorrento, Suite 220  
Calabasas, CA 91302  
(818) 222-9195

This prospectus is part of a registration statement we filed with the SEC. You should rely only on the information or representations provided in this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of the document.

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PART II  
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following is a statement of estimated expenses we will pay in connection with the issuance and distribution of the securities being registered. None of these expenses will be paid by the selling securityholders.

<TABLE>  
<CAPTION>

ITEM	AMOUNT
<S>	<C>
SEC registration fee.....	\$519
Printing fees.....	\$10,000
Nasdaq fees.....	\$5,000
Blue sky fees and expenses.....	\$5,000
Legal fees and expenses.....	\$15,000
Accountants' fees and expenses.....	\$5,000
Transfer agent fees.....	\$1,000
Miscellaneous.....	\$2,000
Total.....	\$43,519

</TABLE>

All of the above amounts, except for the SEC registration fee, have been estimated.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Nevada General Corporation Law allows us to indemnify our officers and directors from liability incurred by reason of the fact that he or she is or was an officer or director of the corporation. We may authorize such indemnification if we determine that it is proper under the circumstances. This determination can be authorized based on a vote of our stockholders, by a majority vote of a quorum of directors who were not parties to the relevant legal action, or under certain circumstances, by independent legal counsel in a written opinion. The indemnification can include, but is not limited to, reimbursement of all fees, including amounts paid in settlement and attorney's fees actually and reasonably incurred, in connection with the defense or settlement of any action or suit by the officer or director.

We have purchased and maintained insurance covering our officers and directors for the purpose of covering indemnification expenses.

At present, there is no pending litigation or proceeding involving a

director, officer, employee or agent of our company as to which indemnification is being sought.

ITEM 16. EXHIBITS.

EXHIBIT DESCRIPTION  
NUMBER -----  
-----

- 4.1 Securities Purchase Agreement, dated as of January 8, 2001, between Netsol International, Inc. and Deephaven Private Placement Trading Ltd.
- 4.2 Registration Rights Agreement, dated as of January 8, 2001, between Netsol International, Inc. and Deephaven Private Placement Trading Ltd.
- 4.3 Letter Agreement, dated February 23, 2001, between Netsol International, Inc. and Deephaven Private Placement Trading Ltd.

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- 5.1 Opinion of Malea Farsai, Esq., General Counsel of NetSol International, Inc.
- 23.1 Consent of Stonefield Josephson, Inc.
- 23.2 Consent of Saeed Kamran Patel & Co.
- 23.3 Consent of Mazars Neville Russell.
- 23.4 Consent of Malea Farsai, Esq., General Counsel of NetSol International, Inc. (included in Exhibit 5).
- 24.1 Powers of Attorney (included on page II-3).

ITEM 17. UNDERTAKINGS.

(1) We hereby undertake:

(a) To file, during any period in which the selling securityholders offer or sell securities, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the registration statement;

(iii) To include any additional or changed material information of the plan of distribution.

(b) That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered, and the offering of securities at that time shall be deemed to be the initial bona fide offering.

(c) To file a post-effective amendment to remove from registration any of the securities that remain unsold at the termination of the offering.

(2) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by our directors, officers or controlling persons in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether indemnification by us is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(3) We also undertake that we will:

(a) For determining any liability under the Securities Act of 1933, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by us under the Rule 424(b)(1), or (4) or 497(h) under the Securities Act of 1933 as part of this registration statement as of the time the Securities and Exchange Commission declared it effective.

(b) For determining any liability under the Securities Act of 1933, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the bona fide offering of those securities.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Calabasas, State of California on March 12, 2001.

NETSOL INTERNATIONAL, INC.

By: /s/ Najeeb U. Ghauri

-----  
 Najeeb U. Ghauri,  
 CHIEF EXECUTIVE OFFICER

POWERS OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Najeeb U. Ghauri, Chief Executive Officer of NetSol International, Inc., his or her true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities (unless revoked in writing), to sign any and all amendments to this registration statement, including any post-effective amendments as well as any related registration statement (or amendment thereto) filed in reliance upon Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<TABLE>  
 <CAPTION>

SIGNATURE	TITLE	DATE
<S> /s/ Salim Ghauri ----- Salim Ghauri	<C> President and Director (Principal Executive Officer)	March 12, 2001
/s/ Syed Husain ----- Syed Husain	Chief Financial Officer (Principal Financial and Accounting Officer)	March 12, 2001
/s/ Najeeb U. Ghauri ----- Najeeb U. Ghauri	Chief Executive Officer and Director	March 12, 2001
/s/ Shahab Ghauri ----- Shahab Ghauri	Director	March 12, 2001
/s/ Irfan Mustafa ----- Irfan Mustafa	Chairman of the Board and Director	March 12, 2001
/s/ Naeem Ghauri ----- Naeem Ghauri	Chief Operating Officer and Director	March 12, 2001
/s/ Cary Burch ----- Cary Burch	Director	March 12, 2001
/s/ Waheed Akbar ----- Waheed Akbar	Director	March 12, 2001
/s/ Nasim Ashraf ----- Nasim Ashraf	Director	March 12, 2001

</TABLE>

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
4.1	Securities Purchase Agreement, dated as of January 8, 2001, between Netsol International, Inc. and Deephaven Private Placement Trading Ltd.

- 4.2 *Registration Rights Agreement, dated as of January 8, 2001, between Netsol International, Inc. and Deephaven Private Placement Trading Ltd.*
- 4.3 *Letter Agreement, dated February 23, 2001, between Netsol International, Inc. and Deephaven Private Placement Trading Ltd.*
- 5.1 *Opinion of Malea Farsai, Esq., General Counsel of NetSol International, Inc.*
- 23.1 *Consent of Stonefield Josephson, Inc.*
- 23.2 *Consent of Saeed Kamran Patel & Co.*
- 23.3 *Consent of Mazars Neville Russell.*
- 23.4 *Consent of Malea Farsai, Esq., General Counsel of NetSol International, Inc. (included in Exhibit 5).*
- 24.1 *Powers of Attorney (included on page II-3).*

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**SECURITIES PURCHASE AGREEMENT**

among

**NETSOL INTERNATIONAL, INC.**

and

**THE INVESTORS SIGNATORY HERETO**

Dated as of January 8, 2001

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*SECURITIES PURCHASE AGREEMENT* together with any schedules and exhibits attached hereto (this "AGREEMENT"), dated as of January 8, 2001, among NetSol International, Inc., a Nevada corporation (the "COMPANY"), and the investors signatory hereto (each such investor is a "PURCHASER" and all such investors are, collectively, the "PURCHASERS").

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "SECURITIES ACT"), and Rule 506 promulgated thereunder, the Company desires to issue and sell to the Purchasers and the Purchasers, severally and not jointly, desire to purchase from the Company, shares of the Company's common stock, \$.001 par value per share (the "COMMON STOCK"), and certain other securities of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and the Purchasers agree as follows:

**ARTICLE I  
PURCHASE AND SALE**

**1.1. CLOSING; SETTLEMENT DATES.**

Subject to the terms and conditions set forth in this Agreement, the Company shall issue and sell to the Purchasers and the Purchasers shall severally purchase shares of Common Stock ("SHARES") and warrants to purchase Shares ("WARRANTS") for an aggregate purchase price of \$2,000,000 (the "PURCHASE PRICE"). The purchase and sale of the Shares and Warrants hereunder shall be closed (the "CLOSING") at the offices of Robinson Silverman Pearce Aronsohn & Berman LLP ("ROBINSON SILVERMAN"), 1290 Avenue of the Americas, New York, New York 10104, on the execution date of this Agreement. The Closing shall take place on the two dates described in Sections 1.1(i) and 1.1(iii) below.

- (i) **THE FIRST CLOSING DATE.** On the date of execution of this Agreement (the "FIRST CLOSING DATE"), the parties shall deliver or shall cause to be delivered the following: (A) the Company shall deliver to each Purchaser: (1) a stock certificate of the Company, registered in the name of such Purchaser, representing a number of Shares equal to the quotient obtained by dividing (x) 50% of the portion of the Purchase Price indicated below such Purchaser's signature to this Agreement by (y) the First Closing Date Per Share Purchase Price (as defined

below), (2) a Warrant, in the form of EXHIBIT C, registered in the name of such Purchaser, pursuant to which such Purchaser shall have the right to acquire upon the terms thereof at an exercise price per share equal to 125% of the First Closing Date Per Share Purchase Price, a number of shares of Common Stock equal to the quotient obtained by dividing (x) 30% of the Purchase Price to be paid by such Purchaser on the First Closing Date pursuant to clause (B) below in this paragraph and (y) the First Closing Date Per Share Purchase Price; (3) an executed Registration Rights Agreement, dated the date of this Agreement, among the Company and the Purchasers, in the form of EXHIBIT A (the

"REGISTRATION RIGHTS AGREEMENT"), (4) Transfer Agent Instructions, in the form of EXHIBIT B, executed by the Company and delivered to and acknowledged in writing by the Company's transfer agent (the "TRANSFER AGENT INSTRUCTIONS"), (5) the legal opinion of Riordan & McKinzie, outside counsel to the Company, in agreed form, and (6) an executed copy of this Agreement; and (B) each Purchaser shall deliver to the Company: (1) 50% of the portion of the Purchase Price set forth under such Purchaser's signature to this Agreement (less the monies set forth in Section 4.1) in United States dollars in immediately available funds by wire transfer to an account designated in writing by the Company for such purpose, (2) an executed Registration Rights Agreement and (3) an executed copy of this Agreement. The parties acknowledge and agree that the Purchase Price paid by such Purchaser on the First Closing Date in accordance with Section 1.1(i) (including as paid for purposes of this Section, all monies deducted from the amount paid as set forth in Section 4.1) will be deemed to be consideration paid for the Shares to be issued to such Purchaser pursuant to Section 1.1(i) (A) (1) and the Shares, if any, to be issued to such Purchaser pursuant to Section 1.1(ii) (A).

(ii) THE FIRST SETTLEMENT DATE. On the twelfth Trading Day following the First Closing Date (including the First Closing Date) (the "FIRST SETTLEMENT DATE"), the Company shall deliver to each Purchaser: (A) a stock certificate of the Company, registered in the name of such Purchaser, representing a number of Shares equal to the amount obtained by subtracting (x) the quotient obtained by dividing the Purchase Price paid by such Purchaser on the First Closing Date in accordance with Section 1.1(i) by the First Closing Date Per Share Purchase Price (including as paid for purposes of this Section, all monies deducted from the amount paid as set forth in Section 4.1), from (y) the quotient obtained by dividing the Purchase Price paid by such Purchaser on the First Closing Date in accordance with Section 1.1(i) (including as paid for purposes of this Section, all monies deducted from the amount paid as set forth in Section 4.1) by the First Settlement Date Per Share Purchase Price (if the difference obtained by subtracting the quotient of item (ii) (A) (x) of this paragraph from the product of item (ii) (A) (y) of this paragraph is a negative number, then the parties agree that such Purchaser shall not be obligated to return Shares to the Company), (B) a Warrant, in the form of EXHIBIT C, registered in the name of such Purchaser, pursuant to which such Purchaser shall have the right to acquire upon the terms thereof at an exercise price per share equal to 125% of the First Settlement Date Per Share Purchase Price, a number of shares of Common Stock equal to the amount obtained by subtracting (x) the quotient obtained by dividing 30% of the Purchase Price paid by such Purchaser on the First Closing Date in accordance with Section 1.1(i) by the First Closing Date Per Share Purchase Price, from (y) the quotient obtained by dividing 30% of the Purchase Price paid by such Purchaser on the First Closing Date in accordance with Section 1.1(i) (including as paid for purposes of this Section, all monies deducted from the amount paid as set forth in Section 4.1) by the First Settlement Date Per Share Purchase Price (if the difference obtained by subtracting the quotient of item (ii) (B) (x) of this paragraph from the quotient of item (ii) (B) (y) of this paragraph is a negative number, then the parties agree that such Purchaser shall not be obligated to return the Warrant issued to it on the First Closing Date for re-issuance in a lower amount).

(iii) *THE SECOND CLOSING DATE.* On the 30th Trading Day following (and including) the First Closing Date, or such earlier date as may be indicated in writing by Deephaven (the "SECOND CLOSING DATE"): (A) the Company will deliver to each Purchaser: (1) a stock certificate of the Company, registered in the name of such Purchaser, representing a number of Shares equal to the quotient obtained by dividing (x) 50% of the portion of the Purchase Price indicated below such Purchaser's signature to this Agreement by (y) the Second Closing Date Per Share Purchase Price (as defined below), (2) a Warrant, in the form of EXHIBIT C, registered in the name of such Purchaser, pursuant to which such Purchaser shall have the right to acquire upon the terms thereof at an exercise price per share equal to 125% of the Second Closing Date Per Share Purchase Price, a number of shares of Common Stock equal to the quotient obtained by dividing (x) 30% of the Purchase Price to be paid by such Purchaser on the Second Closing Date pursuant to clause (B) below in this paragraph by (y) the Second Closing Date Per Share Purchase Price, and (B) each Purchaser shall deliver 50% of the portion of the Purchase Price set forth under such Purchaser's signature to this Agreement in United States dollars in immediately available funds by wire transfer to an account designated in writing by the Company for such purpose. The parties acknowledge and agree that the Purchase Price paid by such Purchaser on the Second Closing Date in accordance with Section 1.1(iii) will be deemed to be consideration paid for the Shares to be issued to such Purchaser pursuant to Section 1.1(iii) (A) (1) and the Shares, if any, that may be issued to such Purchaser pursuant to Section 1.1(iv) (A). Notwithstanding anything to the contrary contained herein, a Purchaser shall not be obligated to acquire Shares or Warrants on the Second Closing Date or Second Settlement Date (as defined below) if there shall have occurred and be continuing an Event Under Section 3.17(a) (b). However, the obligations of the Company under the Transaction Documents shall not be affected by such non-acquisition.

(iv) *THE SECOND SETTLEMENT DATE.* On the twelfth Trading Day following the Second Closing Date (including the Second Closing Date) (the "SECOND SETTLEMENT DATE"), the Company shall deliver to each Purchaser: (A) a stock certificate of the Company, registered in the name of such Purchaser, representing a number of Shares equal to the amount obtained by subtracting (x) the quotient obtained by dividing the Purchase Price paid by such Purchaser on the Second Closing Date in accordance with Section 1.1(iii) by the Second Closing Date Per Share Purchase Price, from (y) the quotient obtained by dividing the Purchase Price paid by such Purchaser on the Second Closing Date in accordance with Section 1.1(iii) by the Second Settlement Date Per Share Purchase Price (if the difference obtained by subtracting the quotient of item (iv) (A) (x) of this paragraph from the product of item (iv) (A) (y) of this paragraph is a negative number, then the parties agree that such Purchaser shall not be obligated to return Shares to the Company), (B) a Warrant, in the form of EXHIBIT C, registered in the name of such Purchaser, pursuant to which such Purchaser shall have the right to acquire upon the terms thereof at an exercise price per share equal to 125% of the Second Settlement Date Per Share Purchase Price, a number of shares of Common Stock equal to the amount obtained by subtracting (x) the quotient obtained by dividing 30% of the Purchase Price paid by such Purchaser on the Second Closing Date in accordance with Section 1.1(iii) by the Second Closing Date Per Share Purchase Price, from (y) the quotient obtained by dividing 30% of the Purchase Price paid by such Purchaser on

the Second Closing Date in accordance with Section 1.1(iii) by the Second Settlement Date Per Share Purchase Price (if the difference obtained by subtracting the quotient of item (iv) (B) (x) of this paragraph from the quotient of item (iv) (B) (y) of this paragraph is a negative number, then the parties agree that such Purchaser shall not be obligated to return the Warrant issued to it on the Second Closing Date for re-issuance in a lower amount).



1.2. CERTAIN DEFINED TERMS. As used in this Agreement, the following terms shall have the meanings set forth in this Section 1.2.

- (a) "BID PRICE" means on any particular date (a) the closing bid price per share of the Common Stock on such date on the NASDAQ (as reported at approximately 4:15 p.m. (New York City time) on such date for regular session trading) or on any Subsequent Market (as defined herein) on which the Common Stock is then listed or quoted, as reported by Bloomberg Information Services, Inc. (or any successor entity succeeding to its function of reporting prices), or if there is no such price on such date, then the closing bid price on the NASDAQ (as reported at approximately 4:15 p.m. (New York City time) on such date for regular session trading) or on such Subsequent Market on the date nearest preceding such date, as reported by Bloomberg Information Services, Inc. (or any successor entity succeeding to its function of reporting prices), or (b) if the Common Stock is not then listed or quoted on the Nasdaq or a Subsequent Market, the closing bid price for a share of Common Stock in the over-the-counter market, as reported by the National Quotation Bureau Incorporated or similar organization or agency succeeding to its functions of reporting prices) at the close of business on such date, or (c) if the Common Stock is not then reported by the National Quotation Bureau Incorporated (or similar organization or agency succeeding to its functions of reporting prices), then the average of the "Pink Sheet" quotes for the relevant conversion period, as determined in good faith by the Holder, or (d) if the Common Stock is not then publicly traded the fair market value of a share of Common Stock as determined by an Appraiser selected in good faith by Deephaven.
- (b) "BUSINESS DAY" means any day except Saturday, Sunday and any day which shall be a federal legal holiday or a day on which banking institutions in the State of New York or California are authorized or required by law or other governmental action to close.
- (c) "CLOSING DATE" means either of the First Closing Date or Second Closing Date.
- (d) "DEEPHAVEN" means Deephaven Private Placement Trading Ltd.
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- (e) "FIRST CLOSING DATE PER SHARE PURCHASE PRICE" means the lesser of (a) 85% of the average Bid Price for the 10 Trading Days immediately preceding the First Closing Date and (b) the Bid Price on the Trading Day immediately preceding the First Closing Date.
- (f) "FIRST OFFER PER SHARE PURCHASE PRICE" means the lesser of (a) \$10.00 (subject to equitable adjustment in the event of any stock splits of the Common Stock and similar events prior to the date that any offer under Section 3.16(a) is accepted) and (b) 85% of the average Bid Price for the 21 Trading Days immediately following the date of the delivery by the Company of an offer, if any, under Section 3.16(a).
- (g) "FIRST SETTLEMENT DATE PER SHARE PURCHASE PRICE" means the lesser of (a) 85% of the average Bid Price for the 21 Trading Days comprising the ten Trading Days immediately preceding the Closing Date, the Closing Date and the ten Trading Days immediately following the Closing Date and (b) the Bid Price on the Trading Day immediately preceding the Closing Date.
- (h) "NASDAQ" means the Nasdaq SmallCap Market.

- (i) "PERSON" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.
- (j) "SECOND CLOSING DATE PER SHARE PURCHASE PRICE" means the lesser of (a) 85% of the average Bid Price for the 10 Trading Days immediately preceding the Second Closing Date and (b) the Bid Price on the Trading Day immediately preceding the Second Closing Date.
- (k) "SECOND OFFER PER SHARE PURCHASE PRICE" means the lesser of (a) \$10.00 (subject to equitable adjustment in the event of any stock splits of the Common Stock or similar events prior to the date of any offer under Section 3.16(b) is accepted) and (b) 85% of the average Bid Price for the 21 Trading Days immediately following the date of the delivery by the Company of an offer, if any, under Section 3.16(b).
- (l) "SECOND SETTLEMENT DATE PER SHARE PURCHASE PRICE" means the lesser of (a) 85% of the average Bid Price for the 21 Trading Days comprising the ten Trading Days immediately preceding the Second Settlement Date and the ten Trading Days immediately following the Second Settlement Date and (b) the Bid Price on the Trading Day immediately preceding the Second Settlement Date.
- (m) "SUBSEQUENT MARKET" shall mean any of the New York Stock Exchange, American Stock Exchange, or Nasdaq National Market.

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- (n) "TRADING DAY" means (a) a day on which the Common Stock is traded on the NASDAQ or on the Subsequent Market on which the Common Stock is then listed or quoted, as the case may be, or (b) if the Common Stock is not listed on the NASDAQ or a Subsequent Market, a day on which the Common Stock is traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (c) if the Common Stock is not quoted on the OTC Bulletin Board, a day on which the Common Stock is quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding its functions of reporting prices); PROVIDED, that in the event that the Common Stock is not listed or quoted as set forth in (a), (b) and (c) hereof, then Trading Day shall mean a Business Day.

## ARTICLE II REPRESENTATIONS AND WARRANTIES

2.1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby makes the following representations and warranties to the Purchasers:

- (a) ORGANIZATION AND QUALIFICATION. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Nevada, with the requisite corporate power and authority to own and use its properties and assets and to carry on its business as currently conducted. The Company has no subsidiaries other than as set forth in SCHEDULE 2.1(a) (collectively, the "SUBSIDIARIES"). Each of the Subsidiaries is an entity, duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Each of the Company and the Subsidiaries is duly qualified to do business and is in good standing as a foreign corporation or other entity in

each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not, individually or in the aggregate, (x) adversely affect the legality, validity or enforceability of the Securities (as defined below), this Agreement, the Registration Rights Agreement, the Transfer Agent Instructions or the Warrants (collectively, the "TRANSACTION DOCUMENTS"), (y) have or result in a material adverse effect on the results of operations, assets, prospects, or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (z) adversely impair the Company's ability to perform fully on a timely basis its obligations under any of the Transaction Documents (any of (x), (y) or (z), a "MATERIAL ADVERSE EFFECT").

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- (b) **AUTHORIZATION; ENFORCEMENT.** The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company. Each of the Transaction Documents has been duly executed by the Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms. Neither the Company nor any Subsidiary is in violation of any of the provisions of its respective certificate or articles of incorporation, by-laws or other organizational or charter documents.
- (c) **CAPITALIZATION.** The number of authorized, issued and outstanding capital stock of the Company is set forth in SCHEDULE 2.1(c). Except as disclosed in SCHEDULE 2.1(c), the Company owns all of the capital stock of each Subsidiary. No shares of Common Stock are entitled to preemptive or similar rights, nor is any holder of the securities of the Company entitled to preemptive or similar rights arising out of any agreement or understanding with the Company or any Subsidiary by virtue of any of the Transaction Documents. Except as a result of the purchase and sale of the Securities (as defined below) hereunder and under the Warrants and except as disclosed in SCHEDULE 2.1(c), there are no outstanding options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings, or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock, or securities or rights convertible or exchangeable into shares of Common Stock. The issue and sale of the Securities, will not obligate the Company to issue shares of Common Stock or other securities to any Person other than the Purchaser and will not result in a right of any holder of Company securities to adjust the exercise or conversion or reset price under such securities.
- (d) **ISSUANCE OF THE SECURITIES.** The Securities are duly authorized and, when issued and paid for in accordance with the terms hereof and the Warrants, shall have been duly and validly issued, fully paid and nonassessable, free and clear of all liens, encumbrances and rights of first refusal of any kind (collectively, "LIENS"). The

Company has reserved a sufficient number of duly authorized shares of Common Stock to issue all of the Shares and for issuance upon exercise in full of the Warrants. Prior to

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any offer of First Offered Shares and Second Offered Shares (as defined in Sections 3.16(a) and (b), respectively), the Company will reserve for issuance to Deephaven a number of shares of Common Stock equal to the number of First Offered Shares and Second Offered Shares. The shares of Common Stock issuable upon exercise of the Warrants are referred to herein as the "UNDERLYING SHARES." The Shares, the Warrants, the Underlying Shares, the Adjustment Shares (as defined in Section 3.14) the First Offered Shares and Second Offered Shares are collectively referred to herein as, the "SECURITIES."

- (e) **NO CONFLICTS.** The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other charter documents (each as amended through the date hereof), or (ii) subject to obtaining the Required Approvals (as defined below), conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), as could not, individually or in the aggregate, have or result in a Material Adverse Effect. The business of the Company is not being conducted in violation of any law, ordinance or regulation of any governmental authority, except for violations which, individually or in the aggregate, could not have or result in a Material Adverse Effect. The Company shall indemnify and hold harmless the Purchasers, their employees, officers, directors, agents and partners, and their respective Affiliates, from and against all claims, losses, damages, costs (including the costs of preparation and attorney's fees) and expenses suffered in respect of any breach of this representation and warranty, as such losses, damages, costs, fees and expenses are incurred.
- (f) **FILINGS, CONSENTS AND APPROVALS.** Neither the Company nor any Subsidiary is required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) the filings required pursuant to

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Section 3.10, (ii) the filing with the Securities and Exchange Commission (the "COMMISSION") of a registration statement meeting the requirements set forth in the

Registration Rights Agreement and covering the resale of the Shares and the Underlying Shares by the Purchasers (the "UNDERLYING SHARES REGISTRATION STATEMENT"), (iii) the application(s) to the NASDAQ for the listing of the Underlying Shares for trading on the NASDAQ (and with any other national securities exchange or market on which the Common Stock is then listed) in the time and manner required thereby, and (iv) applicable Blue Sky filings (collectively, the "REQUIRED APPROVALS").

- (g) **LITIGATION; PROCEEDINGS.** There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "ACTION") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, individually or in the aggregate, have or result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving (A) a claim of violation of or liability under federal or state securities laws or (B) a claim of breach of fiduciary duty; (iv) the Company does not have pending before the Commission any request for confidential treatment of information and the Company has no knowledge of any expected such request that would be made prior to the Effectiveness Date (as defined in the Registration Rights Agreement); and (v) there has not been, and to the best of the Company's knowledge there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company.
- (h) **NO DEFAULT OR VIOLATION.** Neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred which has not been waived which, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound, (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is in violation of any statute, rule or regulation of any governmental authority, in each case of clauses (i), (ii) or (iii) above, except as could not individually or in the aggregate, have or result in a Material Adverse Effect.
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- (i) **PRIVATE OFFERING.** Assuming the accuracy of the representations and warranties of the Purchasers set forth in Sections 2.2(b)-(g), the offer, issuance and sale of the Shares, the Warrants and the Warrants Shares being issued to the Purchasers on the First Closing Date, First Settlement Date, Second Closing Date, Second Settlement Date as contemplated hereby and the issuance and sale of the Adjustment Shares are exempt from the registration requirements of the Securities Act. Neither the Company nor any Person acting on its behalf has taken or is, to the knowledge of the Company, contemplating taking any action which could subject the offering, issuance or sale of such Securities to the registration requirements of the Securities Act including soliciting any offer to buy or sell such Securities by means of any form of general solicitation or advertising.

- (j) **SEC REPORTS; FINANCIAL STATEMENTS.** The Company has filed all reports required to be filed by it under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (or such shorter period as the Company was required by law to file such material) (the foregoing materials being collectively referred to herein as the "SEC REPORTS" and, together with the Schedules to this Agreement, the "DISCLOSURE MATERIALS") on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. All material agreements to which the Company is a party or to which the property or assets of the Company are subject have been filed as exhibits to the SEC Reports as required under the Exchange Act. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments. Since January 1, 2000, except as specifically disclosed in the SEC Reports, (a) there has been no event, occurrence or development that has or that could result in a

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Material Adverse Effect, (b) the Company has not incurred any liabilities (contingent or otherwise) other than (x) liabilities incurred in the ordinary course of business consistent with past practice and (y) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the Commission, (c) the Company has not altered its method of accounting or the identity of its auditors, (d) the Company has not declared or made any payment or distribution of cash or other property to its stockholders or officers or directors (other than in compliance with existing Company stock option plans) with respect to its capital stock, or purchased, redeemed (or made any agreements to purchase or redeem) any shares of its capital stock and (e) the Company has not issued or committed to issue shares of Common Stock or securities that are convertible or exchangeable into, or give holders thereof the right to receive, shares of Common Stock.

- (k) **INVESTMENT COMPANY.** The Company is not, and is not an Affiliate (as defined in Rule 405 under the Securities Act) of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
- (l) **CERTAIN FEES.** Except for certain fees payable by the Company to Jesup & Lamont Securities Corporation, no fees or commissions will be payable by the Company to any

broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement. The Purchasers shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by this Agreement. The Company shall indemnify and hold harmless the Purchasers, their employees, officers, directors, agents, and partners, and their respective Affiliates, from and against all claims, losses, damages, costs (including the costs of preparation and attorney's fees) and expenses suffered in respect of any such claimed or existing fees, as such losses, damages, costs, fees and expenses are incurred.

- (m) **FORM S-3 ELIGIBILITY.** The Company is eligible to register its Common Stock for resale under Form S-3 promulgated under the Securities Act.
- (n) **LISTING AND MAINTENANCE REQUIREMENTS.** Except as set forth in the SEC Reports, the Company has not, in the two years preceding the date hereof received notice (written or oral) from the NASDAQ, any stock exchange, market or trading facility on which the Common Stock is or has been listed (or on which it has been quoted) to the effect that the Company is not in compliance with the listing or maintenance requirements of such exchange, market or trading facility. The Company is, and has no reason to

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believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

- (o) **PATENTS AND TRADEMARKS.** The Company and its Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses and rights which are necessary or material for use in connection with their respective businesses as described in the SEC Reports and which the failure to so have would have a Material Adverse Effect (collectively, the "INTELLECTUAL PROPERTY RIGHTS"). Neither the Company nor any Subsidiary has received a written notice that the Intellectual Property Rights used by the Company or its Subsidiaries violates or infringes upon the rights of any Person. To the best knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights.
- (p) **REGISTRATION RIGHTS; RIGHTS OF PARTICIPATION.** Except as set forth on Schedule 6(b) to the Registration Rights Agreement, the Company has not granted or agreed to grant to any Person any rights (including "piggy-back" registration rights) to have any securities of the Company registered with the Commission or any other governmental authority which has not been satisfied. Except as set forth on Schedule 6(b) to the Registration Rights Agreement, no Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents.
- (q) **REGULATORY PERMITS.** The Company and its Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses as described in the SEC Reports, except where the failure to possess such permits could

not, individually or in the aggregate, have or result in a Material Adverse Effect ("MATERIAL PERMITS"), and neither the Company nor any such Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

- (r) **TITLE.** The Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them which is material to the business of the Company and its Subsidiaries and good and marketable title in all personal property owned by them which is material to the business of the Company and its Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its Subsidiaries. Any real property and facilities held under lease by the Company and its Subsidiaries are held by them under valid, subsisting and enforceable leases of which the Company and its Subsidiaries

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are in compliance and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its Subsidiaries.

- (s) **LABOR RELATIONS.** No material labor problem exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company.
- (t) **SOLVENCY.** Based on the financial condition of the Company as of the Closing Date, (i) the Company's fair saleable value of its assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature; (ii) the Company's assets do not constitute unreasonably small capital to carry on its business for the current fiscal year as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, and project capital requirements and capital availability thereof; and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its debt when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt).
- (u) **APPLICATION OF TAKEOVER PROTECTIONS.** The Company and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's Certificate of Incorporation (or similar charter documents) or the laws of its state of incorporation that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under this Agreement, including without limitation the Company's issuance of the Securities and the Purchasers' ownership of the Securities.
- (v) **DISCLOSURE.** The Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or its agents or counsel with any information



that constitutes or might constitute material non-public information. The Company understands and confirms that the Purchasers shall be relying on the foregoing representations in effecting transactions in securities of the Company. All disclosure provided to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Schedules to this Agreement, furnished by or on behalf of the Company are true and correct and do not contain any untrue statement of a material fact or omit to state any material fact necessary

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in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

2.2. REPRESENTATIONS AND WARRANTIES OF THE PURCHASERS. Each Purchaser hereby for itself and for no other Purchaser, represents and warrants to the Company as follows:

- (a) ORGANIZATION; AUTHORITY. Such Purchaser, if an entity, is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations thereunder. The purchase by such Purchaser of the Securities to be acquired by it hereunder has been duly authorized by all necessary action on the part of such Purchaser. Each of this Agreement and the Registration Rights Agreement has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms.
- (b) INVESTMENT INTENT. Such Purchaser is acquiring the Securities as principal for its own account for investment purposes only and not with a view to or for distributing or reselling such Securities or any part thereof, without prejudice, however, to such Purchaser's right, subject to the provisions of this Agreement, the Registration Rights Agreement and the Warrants, at all times to sell or otherwise dispose of all or any part of such Securities in compliance with applicable securities laws. Nothing contained herein shall be deemed a representation or warranty by such Purchaser to hold Securities for any period of time. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business. Such Purchaser does not have any agreement or understanding, directly or indirectly, with any Person to distribute the Securities.
- (c) PURCHASER STATUS. At the time such Purchaser was offered the Securities, it was, and at the date hereof it is, and at each exercise date under its respective Warrants, it will be, an "accredited investor" as defined in Rule 501(a) under the Securities Act.
- (d) EXPERIENCE OF SUCH PURCHASER. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment.

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- (e) **ABILITY OF SUCH PURCHASER TO BEAR RISK OF INVESTMENT.** Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.
- (f) **ACCESS TO INFORMATION.** Such Purchaser acknowledges that it has reviewed the Disclosure Materials and has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and the Company's financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information which the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment and to verify the accuracy and completeness of the information contained in the Disclosure Materials. Neither such inquiries nor any other investigation conducted by or on behalf of such Purchaser or its representatives or counsel shall modify, amend or affect such Purchaser's right to rely on the truth, accuracy and completeness of the Disclosure Materials and the Company's representations and warranties contained in the Transaction Documents.
- (g) **GENERAL SOLICITATION.** Such Purchaser is not purchasing the Securities as a result of or subsequent to any advertisement, article, notice or other communication regarding such Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.
- (h) **RELIANCE.** Such Purchaser understands and acknowledges that (i) the Shares, Warrants and Warrants Shares issuable on the First Closing Date, the First Settlement Date, the Second Closing Date, the Second Settlement Date and the Adjustment Shares are being offered and sold to it without registration under the Securities Act in a private placement that is exempt from the registration provisions of the Securities Act and (ii) the availability of such exemption, depends in part on, and the Company will rely upon the accuracy and truthfulness of, the foregoing representations and such Purchaser hereby consents to such reliance.

The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 2.2.

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**ARTICLE III  
OTHER AGREEMENTS OF THE PARTIES**

- 3.1. **TRANSFER RESTRICTIONS.** Securities may only be disposed of pursuant to an effective registration statement under the Securities Act, to the Company or pursuant to an available exemption from or in a transaction not subject to the registration requirements of the Securities Act, and in compliance with any applicable federal and state securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or to the Company, except as otherwise set forth herein, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the

Securities Act. Any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Purchaser under this Agreement and the Registration Rights Agreement and, if such transfer is of all or a portion of the Warrants held by such Purchaser, as a Holder of the Warrants (as defined therein).

- (a) The Shares, the Warrants and any Warrant Shares issued while there is not an effective Underlying Shares Registration Statement shall be issued with the following legend:

[NEITHER] THESE SECURITIES [NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE] HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

- (c) However, Underlying Shares issued when there is an

effective Underlying Shares Registration Statement or when such legend is not required under the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Commission) shall not contain the legend set forth above nor any other legend. The Company shall cause its counsel to issue the legal opinion included in the Transfer Agent Instructions to the Company's transfer agent on the date that an Underlying Shares Registration Statement is declared effective by the Commission (such date, the "EFFECTIVE DATE"). The Company agrees that following the Effective Date, it will, no later than three Trading Days following the delivery by a Purchaser to the Company of a certificate or

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certificates representing Shares or Underlying Shares issued with a restrictive legend, deliver to such Purchaser certificates representing such Shares or Underlying Shares which shall be free from all restrictive and other legends. The Company may not make any notation on its records or give instructions to any transfer agent of the Company which enlarge the restrictions of transfer set forth in this Section.

3.2. **ACKNOWLEDGMENT OF DILUTION.** The Company acknowledges that the issuance of Underlying Shares upon exercise of the Warrants will result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligation to issue Underlying Shares upon exercise of the Warrants pursuant to the terms thereof is unconditional and absolute, subject to the limitations set forth in the Warrants, regardless of the effect of any such dilution.

3.3. **FURNISHING OF INFORMATION.** As long as the Purchasers own Securities, the Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to Section 13(a) or 15(d) of the Exchange Act. As long as the Purchasers own Securities, if the Company is not required to file reports pursuant to such sections, it will prepare and furnish to the Purchasers and make publicly available in accordance with Rule 144(c) promulgated under the Securities Act such information as is required for the Purchasers to sell the Securities under Rule 144 promulgated under the Securities Act. The Company further covenants that it will take such further action as any holder of Securities may reasonably request, all to the extent required from time to time to enable such Person to sell

Underlying Shares without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 promulgated under the Securities Act, including causing its attorneys to render and deliver any legal opinion required under such rule or by the transfer agent of the Common Stock or clearing broker for the Purchaser in order to permit a Purchaser to sell shares under Rule 144. Upon the request of any such Person, the Company shall deliver to such Person a written certification of a duly authorized officer as to whether it has complied with such requirements.

3.4. **INTEGRATION.** The Company shall not, and shall use its best efforts to ensure that, no Affiliate of the Company shall, sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Purchasers, or that would be integrated with the offer or sale of the Securities for the purposes of the rules and regulations of NASDAQ.

3.5. **INCREASE IN AUTHORIZED SHARES.** If on any date the Company would be, if a notice of exercise were to be delivered on such date, precluded from issuing the number of Underlying Shares issuable upon exercise in full of the Warrants due to the unavailability of a sufficient number of authorized but unissued or reserved

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shares of Common Stock, then the Board of Directors of the Company shall promptly prepare and mail to the stockholders of the Company proxy materials requesting authorization to amend the Company's certificate or articles of incorporation to increase the number of shares of Common Stock which the Company is authorized to issue so as to provide enough shares for issuance under the Warrants. In connection therewith, the Board of Directors shall (a) adopt proper resolutions authorizing such increase, (b) recommend to and otherwise use its best efforts to promptly and duly obtain stockholder approval to carry out such resolutions (and hold a special meeting of the stockholders no later than the earlier to occur of the 60th day after delivery of the proxy materials relating to such meeting and the 90th day after request by a holder of Warrants to issue the number of Underlying Shares in accordance with the terms hereof) and (c) within five Business Days of obtaining such stockholder authorization, file an appropriate amendment to the Company's certificate or articles of incorporation to evidence such increase.

3.6. **RESERVATION AND LISTING OF UNDERLYING SHARES.** (a) The Company shall take such steps as may be required to cause the listing of the Shares, Warrant Shares, Adjustment Shares, if any, First Offered Shares, if any, and Second Offered Shares (if any) on the NASDAQ and such other exchange, market or quotation facility on which the Common Stock is traded.

(b) The Company shall maintain a reserve of shares of Common Stock for issuance upon exercise in full of the Warrants in accordance with this Agreement and the Warrants, respectively, in such amount as may be required to fulfill its obligations in full under the Warrants.

3.7. **USE OF PROCEEDS.** The Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and not for the satisfaction of any portion of the Company's debt (other than payment of trade payables in the ordinary course of the Company's business and prior practices), to redeem any Company equity or equity-equivalent securities or to settle any outstanding litigation.

3.8. **EXERCISE OBLIGATIONS.** The Company shall honor exercises of the Warrants and shall deliver Underlying Shares in accordance

with the terms, conditions and time periods set forth in the Warrants.

- 3.9. **SUBSEQUENT FINANCINGS; LIMITATION ON REGISTRATION.** (a) Prior to the 270th day after the Second Closing Date, other than to Deephaven or an Affiliate thereof, the Company shall not offer, sell, grant any option to purchase or offer, sell or grant any right to reprice its securities, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or any equity or equity equivalent securities (including any equity, debt or other instrument that is at any time over the life thereof convertible into or exchangeable for Common Stock), and the Company will cause its Subsidiaries not to offer, sell or issue during

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such period any of such Subsidiary's securities which provide the holder thereof the right to receive any Common Stock (collectively, "COMMON STOCK EQUIVALENTS"), unless otherwise agreed to in writing by the Company and Deephaven. In furtherance of this restriction, other than to Deephaven or an Affiliate thereof, prior to the 270th day following the Second Closing Date, the Company may not enter into any equity line or similar financing arrangement or issue or agree to issue any shares of its Common Stock or any Common Stock Equivalents pursuant to any equity line or similar type of financing, unless otherwise agreed to in writing by the Company and Deephaven.

- (b) From the date of this Agreement through the 180th day following the Effective Date, other than to Deephaven or an Affiliate thereof, the Company shall not directly or indirectly, offer, sell, grant any option to purchase, or otherwise dispose of (or announce any offer, sale, grant of any option to purchase or other disposition) any Common Stock or Common Stock Equivalents, unless (A) the Company delivers to Deephaven a written notice (the "SUBSEQUENT PLACEMENT NOTICE") of its intention to effect such Subsequent Placement, which Subsequent Placement Notice shall describe in reasonable detail the proposed terms of such Subsequent Placement, the amount of proceeds intended to be raised thereunder, the Person with whom such Subsequent Placement shall be effected, and attached to which shall Placement Trading Ltd. shall not have notified the Company by 6:30 p.m. (New York City time) on the fifth Trading Day after its receipt of the Subsequent Placement Notice of its willingness to provide (or to cause its sole designee to provide), subject to completion of mutually acceptable documentation, financing to the Company on the same terms set forth in the Subsequent Placement Notice. If Deephaven shall fail to notify the Company of its intention to enter into such negotiations within such time period, the Company may effect the Subsequent Placement substantially upon the terms and to the Persons (or Affiliates of such Persons) set forth in the Subsequent Placement Notice; PROVIDED, that the Company shall provide Deephaven with a second Subsequent Placement Notice, and Deephaven shall again have the right of first refusal set forth above in this paragraph (b), if the Subsequent Placement subject to the initial Subsequent Placement Notice shall not have been consummated for any reason on the terms set forth in such Subsequent Placement Notice within 40 Trading Days after the date of the initial Subsequent Placement Notice with the Person (or an Affiliate of such Person) identified in the Subsequent Placement Notice.
- (c) Except to register (x) the Registrable Securities (as defined in the Registration Rights Agreement), (y) securities of the Company permitted pursuant to Section 6(c) of the Registration Rights Agreement to be registered in the Underlying Shares Registration Statement, and (z) Common Stock permitted to be issued pursuant to Section 3.9(e), the Company may not until the 180th day after the Effective Date file a registration statement to register any of its securities.

- (d) The restrictive periods set forth in Sections 3.9 (a)-(c) shall be extended for the number of days during such periods (A) in which trading in the Common Stock is suspended by any securities exchange or market or quotation system on which the Common Stock is then listed, or (B) following the Effective Date that the Registration Statement is not

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effective, or (C) following the Effective Date, that the prospectus included in the Registration Statement may not be used by the holders thereof for the resale of Registrable Securities.

- (e) The restrictions contained in Section 3.9 (a)-(c) shall not apply to (i) the granting of options or warrants to employees, officers and directors of the Company, and the issuance of Common Stock upon exercise of such options or warrants granted under any stock option plan heretofore or hereinafter duly adopted by the Company and (ii) shares of Common Stock issuable upon exercise of any currently outstanding warrants and other outstanding convertible securities of the Company, in each case as and to the extent disclosed in SCHEDULE 2.1(c) (but not as to any amendments or modifications of the terms of such securities after the date of this Agreement, including "back-dated" agreements).

3.10. CERTAIN SECURITIES LAWS DISCLOSURES; PUBLICITY. The Company shall: (i) on the Second Settlement Date issue a press release acceptable to the Purchasers disclosing the transactions contemplated hereby, (ii) file with the Commission a Report on Form 8-K disclosing the transactions contemplated hereby in the time and manner required under the Exchange Act, and (iii) timely file with the Commission a Form D promulgated under the Securities Act. The Company shall, no less than two Business Days prior to the filing of any disclosure required by clauses (ii) and (iii) above, provide a copy thereof to the Purchasers for their review. The Company and the Purchasers shall consult with each other in issuing any other press releases or otherwise making public statements or filings and other communications with the Commission or any regulatory agency or stock market or trading facility with respect to the transactions contemplated hereby and neither party shall issue any such press release or otherwise make any such public statement, filings or other communications without the prior written consent of the other, except if such disclosure is required by law or stock market regulation, in which such case the disclosing party shall promptly provide the other party with prior notice of such public statement, filing or other communication. In the event that there is any offer and sale of First Offered Shares or Second Offered Shares, the Company shall, by the third Trading Day following each such sale, prepare and file with the Commission, a supplement to the applicable registration statement under which such shares are offered to disclose any such offer and sale.

3.11. REIMBURSEMENT. If any Purchaser becomes involved in any capacity in any action, proceeding or investigation brought by or against any Person, including stockholders of the Company, solely as a result of acquiring the Securities under this Agreement, the Company will reimburse such Purchaser for its reasonable legal and other expenses (including the cost of any investigation preparation and travel in connection therewith) incurred in connection therewith, as such expenses are incurred. The reimbursement obligations of the Company under this paragraph shall be in addition to any liability which the Company may otherwise have, shall extend upon the same terms and conditions to any Affiliates of the Purchasers who are actually named in such action, proceeding or investigation, and partners, directors,

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agents, employees and controlling persons (if any), as the case may be, of the Purchasers and any such Affiliate, and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Company, the Purchasers and any such Affiliate and any such Person. The Company also agrees that neither the Purchasers nor any such Affiliates, partners, directors, agents, employees or controlling persons shall have any liability to the Company or any Person asserting claims on behalf of or in right of the Company solely as a result of acquiring the Securities under this Agreement.

- 3.12. **SHAREHOLDER RIGHTS PLAN.** No claim will be made or enforced by the Company or any other Person that any Purchaser is an "Acquiring Person" under any shareholders rights plan or similar plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities or shares of Common Stock under the Transaction Documents.
- 3.13. **DISCLOSURE OF MATERIAL NON-PUBLIC INFORMATION.** The Company shall not and shall cause each of its Affiliates and other Persons acting on behalf of the Company not to divulge to any Purchaser any information that it believes to be material non-public information unless such Purchaser has agreed in writing to receive such information. The Company agrees to comply with Regulation FD, promulgated under the Exchange Act.
- 3.14. **ADJUSTMENT TO PURCHASE PRICE UPON ISSUANCE OF COMMON STOCK OR EQUIVALENTS.** If prior to the 180th Trading Day following the Second Closing Date, (a) the Company shall issue or agree to issue shares of Common Stock at a price (i) with respect to the Shares issued on the First Closing Date, below the First Closing Date Per Share Purchase Price, (ii) with respect to the Shares issued on the First Settlement Date, below the First Settlement Date Per Share Purchase Price, (iii) with respect to the Shares issued on the Second Closing Date, below the Second Closing Date Per Share Purchase Price, or (iv) with respect to the Shares issued on the Second Settlement Date, below the Second Settlement Date Per Share Purchase Price, or (b) the Company shall issue any Common Stock Equivalents or shall enter an agreement to issue Common Stock Equivalents, that entitle any Person to acquire shares of Common Stock at a price per share less than (i) with respect to the Shares issued on the First Closing Date, below the First Closing Date Per Share Purchase Price, (iii) with respect to the Shares issued on the First Settlement Date, below the First Settlement Date Per Share Purchase Price or (iv) with respect to the Shares issued on the Second Closing Date, below the Second Closing Date Per Share Purchase Price, (ii) with respect to the Shares issued on the Second Settlement Date, below the Second Settlement Date Per Share Purchase Price (if the holder of the Common Stock or Common Stock Equivalent so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights issued in connection with such issuance, be entitled to receive shares of Common Stock at

a price less than the applicable Per Share Purchase Price, such issuance shall be deemed to have occurred for less than the applicable Per Share Purchase Price), then the applicable Per Share Purchase Price shall be deemed adjusted to equal the price at which the triggering shares of Common Stock or Common Stock Equivalents were deemed issued under this Section and the Company shall, within two Trading Days of the date of such issuance or agreement to issue Common Stock or Common Stock Equivalents, issue and deliver to each Purchaser a number of shares of Common Stock (such shares, the "ADJUSTMENT SHARES")

equal to (1) the number of Shares that would have been issued to such Purchaser on the First Closing Date, Second Closing Date, First Settlement Date or Second Settlement Date (as the case may be) at the lower per share purchase price at which the triggering shares of Common Stock or Common Stock Equivalents were deemed issued under this Section minus (2) the number of Shares actually issued to such Purchaser on the First Closing Date, Second Closing Date, First Settlement Date or Second Settlement Date (as the case may be). The Company shall notify the Purchasers in writing of its issuance of any such Common Stock Equivalents by the end of the day on which the Common Stock or Common Stock Equivalents first issued. The adjustment set forth in this Section shall occur on the date of the issuance of the Common Stock Equivalent at issue, and the Purchasers shall not have to await the conversion, exchange or other adjustment or resetting provision applicable to such Common Stock Equivalent. Such adjustment shall be made whenever such Common Stock or Common Stock Equivalents are issued. If the Company has an effective primary shelf registration statement covering shares of its Common Stock at the time of issuance of any Adjustment Shares, then such issuance shall be made under such registration statement and shall, notwithstanding anything to the contrary set forth herein, be made free of all restrictive legends. If no such registration statement is then effective, the Adjustment Shares shall be entitled to full piggy-back registration rights on all future or then pending Company registration statements, PROVIDED, THAT, in the event that any Adjustment Shares are not included within a registration statement filed by the Company by the 60th day following the issuance of such Adjustment Shares, then the Company shall undertake to file a registration statement covering the resale by the Purchasers (or their transferees) of such Adjustment Shares by the 20th day following such 60th day period, such registration statement shall be treated as a "Registration Statement" under the Registration Rights Agreement and the Purchasers and the Company shall be accorded the obligations and rights under such Agreement with respect to such registration statement. This paragraph shall not apply with respect to (i) the granting of options or warrants to employees, officers, directors and consultants of the Company, and the issuance of Common Stock upon exercise of such options or warrants granted under any stock option plan heretofore or hereinafter duly adopted by the Company, (ii) a Strategic Transaction (as defined below), (iii) the issuance of shares of Common Stock pursuant to a bona fide underwritten public offering (which public offering shall have an aggregate offering price of not less than twenty million dollars) of the Common Stock (it being understood that equity line transactions, including any on-going warrant financing, or any similar arrangements shall not constitute a bona fide underwritten offering of

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the Common Stock for the purposes hereof). A "STRATEGIC TRANSACTION" shall mean a transaction or relationship in which the Company issues shares of Common Stock to a Person which is, itself or through its subsidiaries, an operating company in a business related to the business of the Company and in which the Company receives material benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities.

- 3.15. CERTAIN TRADING RESTRICTIONS. Each Purchaser agrees that it will not enter into any Short Sales (as hereinafter defined) while it still holds Shares issued to it on a Closing Date or a Settlement Date. For purposes of this Section, a "Short Sale" by a Purchaser shall mean a sale of Common Stock by such Purchaser that is marked as a short sale and that is made at a time when there is no equivalent offsetting long



position in Common Stock held by such Purchaser. For purposes of determining whether there is an equivalent offsetting long position in Common Stock held by a Purchaser, Underlying Shares that may be acquired under Warrants held by such Purchaser shall be deemed to be held long by such Purchaser.

3.16. **SUBSEQUENT OFFERS TO ACQUIRE COMMON STOCK.** (a) The Company agrees that on the later of (i) the 20th Trading Day following the date, if any, that there has been declared effective by the Commission a primary shelf registration statement of the Company covering shares of Common Stock and (ii) the 20th Trading Day following the Effective Date, it shall deliver to Deephaven an offer to buy shares of Common Stock under such registration statement (the "FIRST OFFERED SHARES") at an aggregate purchase price equal to \$2,000,000. The offer to acquire First Offered Shares may be accepted by Deephaven by delivery to the Company of a written acceptance by the fifth Trading Day following the receipt of such offer. The number of First Offered Shares that would be so offered shall equal \$2,000,000 divided by the First Offer Per Share Purchase Price. If such offer is timely accepted by Deephaven, then on the 22nd Trading Day following the date of such offer, the Company shall issue and deliver to Deephaven (A) the First Offered Shares, free of all restrictive legends, and (B) a Warrant, in the form of EXHIBIT C except that Underlying Shares thereunder shall never be issued with any restrictive legend), registered in the name of Deephaven, pursuant to which Deephaven shall have the right to acquire upon the terms and at an Exercise Price equal to 125% of the First Offer Per Share Purchase Price a number of shares of Common Stock equal to the quotient obtained by dividing (x) \$600,000 by (y) the First Offer Per Share Purchase Price; and Deephaven shall deliver to the Company \$2,000,000 by wire transfer of immediately available funds to an account designated for such purpose by the Company. In the event that the First Offer Purchase Price is equal to or less than \$7.00 (as adjusted equitably to reflect any stock splits of the Common Stock prior to the closing of the issue and sale of the First Offered Shares) then, notwithstanding its acceptance of the offer, Deephaven shall not be obligated to acquire any First Offered Shares. The purchase price for any First Offered Shares shall be subject to adjustment and a subsequent issuance obligation by the Company that mirrors the adjustment and

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issuance obligations under Section 3.14 with respect to Shares, except that the applicable comparison price shall be the First Offer Per Share Purchase Price.

(b) The Company agrees that if (i) at least 120 days shall have elapsed from the Second Settlement Date, (ii) a primary shelf registration statement of the Company covering shares of Common Stock is then effective, (iii) the closing sales price of the Common Stock as reported by NASDAQ on the exceeds the Second Settlement Date Per Share Purchase Price, and (iv) the Effective Date shall have occurred at least 20 Trading Days prior to such date of determination then the Company shall, on the day following the date, if any, that the conditions set forth in clauses (i) - (iv) have been satisfied, deliver to Deephaven an offer to buy additional shares of Common Stock under such registration statement (the "SECOND OFFERED SHARES") at an aggregate purchase price equal to \$4,000,000. The offer to acquire Second Offered Shares may be accepted by Deephaven by delivery to the Company of a written acceptance by the fifth Trading Day following the receipt of such offer. The number of Second Offered Shares that would be so offered shall equal \$4,000,000 divided by the Second Offer Per Share Purchase Price. If such offer is timely accepted by Deephaven, then on the 22nd Trading Day following the date of such offer, the Company shall issue and deliver to Deephaven (A) the Second Offered Shares, free of all restrictive legends, and (B) a Warrant, in the

form of EXHIBIT C except that Underlying Shares thereunder shall never be issued with any restrictive legend), registered in the name of Deephaven, pursuant to which Deephaven shall have the right to acquire upon the terms and at an Exercise Price equal to 125% of the Second Offer Per Share Purchase Price a number of shares of Common Stock equal to the quotient obtained by dividing (x) \$1,200,000 by (y) the Second Offer Per Share Purchase Price; and Deephaven shall deliver to the Company \$4,000,000 by wire transfer of immediately available funds to an account designated for such purpose by the Company. In the event that the Second Offer Purchase Price is equal to or less than \$7.00 (as adjusted equitably to reflect any stock splits of the Common Stock prior to the closing of the issue and sale of the Second Offered Shares) then, notwithstanding its acceptance of the offer, Deephaven shall not be obligated to acquire any Second Offered Shares. The purchase price for any Second Offered Shares shall be subject to adjustment and a subsequent issuance obligation by the Company that mirrors the adjustment and issuance obligations described under Section 3.14 with respect to Shares, except that the applicable comparison price shall be the Second Offer Per Share Purchase Price.

3.17. PUT EVENT. Upon the occurrence of any of the following events (each, an "EVENT"), a Purchaser may provide the Company with a notice (an "EVENT NOTICE ") requiring the Company to reacquire all or a portion of the Shares, First Offered Shares or Second Offered Shares (if any) which such Purchaser acquired hereunder and then still holds at a put price ("PUT PRICE") per share equal to the greater of (i) the purchase price per share paid by the Purchaser for such shares and (ii) the closing sales price per share for such shares on the date of the Event Notice or date of the payment in full of the Put Price, whichever is greatest (if there is no closing sales price on such date, then the last closing sales price reported for the Common Stock shall be the closing sales price calculated for such purpose):

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- (a) immediately prior to an assignment by the Company for the benefit of creditors or commencement of a voluntary case under Title 11 of the United States Code, or an entering into of an order for relief in an involuntary case under Title 11 of the United States Code, or adoption by the Company of a plan of liquidation or dissolution;
- (b) the Common Stock fails to be listed or quoted for trading on the NASDAQ for a period of three Trading Days (which need not be consecutive Trading Days) or the Company shall enter into an agreement to sell all or substantially all of its assets or shall enter into an agreement to merge or combine the Company with or into another entity in which transaction the Company will not be the surviving entity;
- (c) after the Effective Date, a holder of Registrable Securities is not permitted to sell Registrable Securities under the Underlying Shares Registration Statement for any reason for fifteen Trading Days (whether or not consecutive) and;
- (d) the Effective Date does not occur on or prior to the 180th day following the Closing Date.

The Company shall pay the Put Price by the fifth Trading Day following the date of the delivery of the Event Notice. Interest shall accrue on the aggregate Put Price from the date such amount is due until paid in full at the rate of 15% per annum (or such lesser maximum amount that is permitted to be paid by applicable law), to accrue daily from the date such payment is due hereunder through and including the date of payment. Any Event Notice may be rescinded by the delivering Purchaser at any time prior to its receipt of the full Put Price.

4.1. **FEES AND EXPENSES.** On the First Closing Date, the Company shall reimburse the Purchasers for their legal fees and expenses incurred in connection with the preparation and negotiation of the Transaction Documents by paying to Robinson Silverman \$25,000 (less \$5,000 delivered previously to Robinson Silverman) for the preparation and negotiation of the Transaction Documents and \$1,500 at the closing, if any, of the issuance and sale of First and Second Offered Shares. The amount contemplated by the immediately preceding sentence shall be retained by the Purchasers and shall not be delivered to the Company on the First Closing Date. Other than the amount contemplated herein and except as otherwise set forth in the Registration Rights Agreement, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all stamp and other taxes and duties levied in connection with the issuance of the Securities.

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4.2. **ENTIRE AGREEMENT; AMENDMENTS.** The Transaction Documents, together with the Exhibits and Schedules thereto and Transfer Agent Instructions, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

4.3. **NOTICES.** Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 6:30 p.m. (New York City time) on a Business Day, (ii) the Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Agreement later than 6:30 p.m. (New York City time) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the Business Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as follows:

If to the Company:

NetSol International, Inc.  
24025 Park Sorrento, Suite 220  
Calabasas, California 91302  
Facsimile No.: (818) 222-9197  
Telephone No.: (818) 222-9195  
Attn: Chief Financial Officer

With a copy to:

Riordan & McKenzie  
600 Anton Blvd., 18th Floor  
Costa Mesa, California 92626  
Facsimile No.: (714) 433-2716  
Attn: Michael P. Whalen, Esq.

If to a Purchaser:

To the address set forth under  
such Purchaser's name on the  
signature pages hereto

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

4.4. **AMENDMENTS; WAIVERS.** No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and each of the

Purchasers or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought, except that Sections 3.9, 3.14, 3.15 and 3.16 may be amended in a writing signed by each of Deephaven Private Placement Trading Ltd. and the Company. No waiver of any default with respect to

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any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

- 4.5. **HEADINGS.** The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.
- 4.6. **SUCCESSORS AND ASSIGNS.** This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Purchasers. Except as set forth in Section 3.1(a), the Purchasers may not assign this Agreement or any of the rights or obligations hereunder without the consent of the Company. This provision shall not limit any Purchaser's right to transfer securities or transfer or assign rights under the Registration Rights Agreement.
- 4.7. **NO THIRD-PARTY BENEFICIARIES.** This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.
- 4.8. **GOVERNING LAW.** The corporate laws of the State of Nevada shall govern all issues concerning the relative rights of the Company and its stockholders. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence an action or

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proceeding to enforce any provisions of this Agreement, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its' attorneys fees and

other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

- 4.9. **SURVIVAL.** The representations, warranties, agreements and covenants contained herein shall survive the Closing and the delivery and exercise of the Warrants.
- 4.10. **EXECUTION.** This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature page were an original thereof.
- 4.11. **SEVERABILITY.** In case any one or more of the provisions of this Agreement shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision which shall be a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.
- 4.12. **REMEDIES.** In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.
- 4.13. **INDEPENDENT NATURE OF PURCHASERS' OBLIGATIONS AND RIGHTS.** The obligations of each Purchaser under any Transaction Document is several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert with respect to such obligations or the transactions contemplated by the Transaction Document. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation the rights arising out of this Agreement or out of the

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other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

- 4.14. No Purchaser may become a party to this Agreement or acquire Shares or Warrants without the prior consent of Deephaven.

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SIGNATURE PAGES FOLLOWS]

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IN WITNESS WHEREOF, the parties hereto have caused this

Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

NETSOL INTERNATIONAL, INC.

By: /s/ Salim Ghauri

-----  
Name: Salim Ghauri  
Title: CEO

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SIGNATURE PAGE FOR PURCHASER FOLLOWS]

DEEPHAVEN PRIVATE PLACEMENT TRADING LTD.

By: /s/ Bruce Lieberman

-----  
Name: Bruce Lieberman  
Title: Director Private Placement Trading

Purchase Price: \$2,000,000

Address for Notice:

Address for Notice:  
Deephaven Private Placement Trading Ltd.  
c/o Deephaven Capital Management LLC  
130 Cheshire Lane  
Minnetonka, MN 55305  
Facsimile No.: (952) 249-5320  
Attn: Bruce Lieberman

With a copy to: Robinson Silverman Pearce Aronsohn & Berman LLP  
1290 Avenue of the Americas  
New York, NY 10104  
Facsimile No.: (212) 541-4630 and (212) 541-1432  
Attn: Eric L. Cohen, Esq.

## REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "AGREEMENT") is made and entered into as of January 8, 2001, among NetSol International, Inc., a Nevada corporation (the "COMPANY"), and the investors signatory hereto (each such investor is a "PURCHASER" and all such investors are, collectively, the "PURCHASERS").

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof among the Company and the Purchasers (the "PURCHASE AGREEMENT").

The Company and the Purchasers hereby agree as follows:

### 1. DEFINITIONS

Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement shall have the meanings given such terms in the Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"AFFILIATE" means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "CONTROL," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "AFFILIATED," "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

"BUSINESS DAY" means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York or California are authorized or required by law or other government actions to close.

"CLOSING DATE" shall have the meaning set forth in the Purchase Agreement.

"COMMISSION" means the Securities and Exchange Commission.

"COMMON STOCK" means the Company's common stock, \$.001 par value, or such securities in to which that such stock shall hereafter be reclassified.

"EFFECTIVENESS DATE" means, with respect to the initial Registration Statement required to be filed hereunder, the 95th day following the Closing Date and, with respect to any additional Registration Statements which may be required pursuant to Section 3(c), the 95th day following the date that notice of the requirement to file such additional Registration Statement is provided.

"EFFECTIVENESS PERIOD" shall have the meaning set forth in Section 2(a).

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"FILING DATE" means (A) the earlier of (i) the 50th day following the Closing Date and (ii) the 5th day following the Second Settlement Date (as defined in Section 1.1(iii) of the Purchase Agreement) and (B) with respect to any additional Registration Statements which may be required pursuant to Section 3(c), the 30th day following the date that notice of the requirement to file such additional Registration Statement is provided.

"HOLDER" or "HOLDERS" means the holder or holders, as the case may be, from time to time of Registrable Securities.

"INDEMNIFIED PARTY" shall have the meaning set forth in Section 5(c).

"INDEMNIFYING PARTY" shall have the meaning set forth in Section 5(c).

"LOSSES" shall have the meaning set forth in Section 5(a).

"PERSON" means an individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

"PROCEEDING" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"PROSPECTUS" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"REGISTRABLE SECURITIES" means (i) the Shares and (ii) the shares of Common Stock issuable upon exercise in full of the Warrants.

"REGISTRATION STATEMENT" means the registration statement and any additional registration statements contemplated by Section 3(c), including (in each case) the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"RULE 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

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"RULE 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"RULE 424" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"SECURITIES ACT" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"SHARES" means the shares of Common Stock issued or issuable to the Purchasers pursuant to the Purchase Agreement.

"SPECIAL COUNSEL" means one special counsel to the Holders, for which the Holders will be reimbursed by the Company pursuant to Section 4.

"WARRANTS" shall mean the Warrants issued to the Purchasers pursuant to the Purchase Agreement and the Warrants issued to Jesup & Lamont Securities Corporation in connection with the transactions contemplated by the Purchase Agreement.

## 2. SHELF REGISTRATION

(a) On or prior to each Filing Date, the Company shall prepare and file with the Commission a "Shelf" Registration Statement



covering the resale of all Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on another appropriate form) and shall contain (except if otherwise directed by the Holders) the "Plan of Distribution" attached hereto as ANNEX A. The Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event prior to the Effectiveness Date, and shall use its best efforts to keep such Registration Statement continuously effective under the Securities Act until the date which is two years after the date that such Registration Statement is declared effective by the Commission or such earlier date when all Registrable Securities covered by such Registration Statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) (the "EFFECTIVENESS PERIOD").

(b) The initial Registration Statement to be filed hereunder shall include (but not be limited to) a number of shares of Common Stock equal to no less than the sum of (i) the number of shares issuable upon exercise in full of the Warrants and (ii) the Shares.

(c) If (a) a Registration Statement is not filed on or prior to its Filing Date (if the Company files such Registration Statement without affording the Holder the opportunity to review and comment on the same as required by Section 3(a) hereof, the Company shall not be deemed to have satisfied this clause (a)), or (b) the Company fails to file with the Commission a request for

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acceleration in accordance with Rule 461 promulgated under the Securities Act, within five days of the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that a Registration Statement will not be "reviewed," or not subject to further review, or (c) a Registration Statement filed hereunder is not declared effective by the Commission on or prior to its Effectiveness Date, or (d) after a Registration Statement is filed with and declared effective by the Commission, such Registration Statement ceases to be effective as to all Registrable Securities to which it is required to relate at any time prior to the expiration of the Effectiveness Period without being succeeded within ten Business Days by an amendment to such Registration Statement or by a subsequent Registration Statement filed with and declared effective by the Commission, or (e) the Common Stock shall be delisted or suspended from trading on the Nasdaq SmallCap Market ("NASDAQ") or on the New York Stock Exchange, the Nasdaq National Market or the American Stock Exchange (each, a "SUBSEQUENT MARKET") for more than three Trading Days (which need not be consecutive Trading Days), or (f) the exercise rights of the Holders pursuant to the Warrants are suspended for any reason, or (g) an amendment to a Registration Statement is not filed by the Company with the Commission within ten Business Days of the Commission's notifying the Company that such amendment is required in order for such Registration Statement to be declared effective (any such failure or breach being referred to as an "EVENT," and for purposes of clauses (a), (c), (f) the date on which such Event occurs, or for purposes of clause (b) the date on which such five day period is exceeded, or for purposes of clauses (d) and (g) the date which such ten Business Day-period is exceeded, or for purposes of clause (e) the date on which such three Trading Day-period is exceeded, being referred to as "EVENT DATE"), then, on each such Event Date and every monthly anniversary thereof until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as liquidated damages and not as a penalty, equal to 2.0% of the purchase price paid by such Holder pursuant to the Purchase Agreement. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven days after the date payable, the Company will pay interest thereon at a rate of 15% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The liquidated damages pursuant to the terms hereof shall apply on a pro-rata basis for any portion of a month prior to the cure of an Event.

In connection with the Company's registration obligations hereunder, the Company shall:

(a) Not less than five Business Days prior to the filing of each Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference), the Company shall, (i) furnish to the Holders and their Special Counsel copies of all such documents proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders and their Special Counsel, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary, in the reasonable opinion of respective counsel to conduct a reasonable investigation within the meaning of the Securities Act. The Company shall not file the

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Registration Statement or any such Prospectus or any amendments or supplements thereto to which the Holders of a majority of the Registrable Securities and their Special Counsel shall reasonably object, PROVIDED, the Company is notified of such objection no later than 3 Business Days after the Holders have been so furnished copies of such documents.

(b) (i) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible, and in any event within ten Business Days, to any comments received from the Commission with respect to the Registration Statement or any amendment thereto and as promptly as reasonably possible provide the Holders true and complete copies of all correspondence from and to the Commission relating to the Registration Statement; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance with the intended methods of disposition by the Holders thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(c) File additional Registration Statements if the number of Registrable Securities at any time exceeds 85% of the number of shares of Common Stock then registered in all their existing Registration Statements hereunder.

(d) Notify the Holders of Registrable Securities to be sold and their Special Counsel as promptly as reasonably possible (and, in the case of (i) (A) below, not less than five Business Days prior to such filing) and (if requested by any such Person) confirm such notice in writing no later than one Business Day following the day (i) (A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; (B) when the Commission notifies the Company whether there will be a "review" of such Registration Statement and whenever the Commission comments in writing on such Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Holders); and (C) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (ii) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) if at any time any of the representations and warranties of the Company contained in any agreement contemplated hereby ceases to be true and correct in all material respects; (v) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any

jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (vi) of the occurrence of any event or passage of time that makes

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the financial statements included in the Registration Statement ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(e) Promptly deliver to each Holder and their Special Counsel, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Persons may reasonably request. The Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(f) Prior to any public offering of Registrable Securities, use its best efforts to register or qualify or cooperate with the selling Holders and their Special Counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; PROVIDED, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

(g) Cooperate with the Holders to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be delivered to a transferee pursuant to a Registration Statement, which certificates shall be free, to the extent permitted by the Purchase Agreement, of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such Holders may request.

(h) Upon the occurrence of any event contemplated by Section 3(d) (vi), as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(i) Comply with all applicable rules and regulations of the Commission.

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(j) Each Holder, by execution of this Agreement, hereby appoints Deephaven Private Placement Trading Ltd. as its representative for the purpose of reviewing and commenting on any registration statement to be filed by the Company under this Section 3.

4. REGISTRATION EXPENSES. All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in

the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the NASDAQ and any Subsequent Market on which the Common Stock is then listed for trading, and (B) in compliance with applicable state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky qualifications or exemptions of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as requested by the Holders)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses requested by the Holders), (iii) messenger, tele phone and delivery expenses, (iv) fees and disbursements of counsel for the Company and Special Counsel for the Holders and (v) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement.

## 5. INDEMNIFICATION

(a) **INDEMNIFICATION BY THE COMPANY.** The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "LOSSES"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (1) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto, (2) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the

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Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e), (3) the failure by such Holder or such Holder's agent to comply with the prospectus delivery requirements of the Holder under the Securities Act applicable to sales of Registrable Securities by such Holder under a Registration Statement, or (4) the failure of such Holder or such Holder's agent to resell Registrable Securities in a manner permitted by the Plan of Distribution. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

(b) **INDEMNIFICATION BY HOLDERS.** Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review) arising solely out of or based solely upon any untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, or arising solely out

of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in such Registration Statement or such Prospectus or to the extent that (1) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto, (2) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e), (3) the failure by such Holder or such Holder's agent to comply with the prospectus delivery requirements of the Holder under the Securities Act applicable to sales of Registrable Securities by such Holder under a Registration Statement, or (4) the failure of such Holder or such Holder's agent to resell Registrable Securities in a manner permitted by the Plan of Distribution. In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(c) CONDUCT OF INDEMNIFICATION PROCEEDINGS. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "INDEMNIFIED PARTY"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "INDEMNIFYING PARTY") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its

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obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not

inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten Business Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; PROVIDED, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) CONTRIBUTION. If a claim for indemnification under Section 5(a) or 5(b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as

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a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by PRO RATA allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5(d), no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

## 6. MISCELLANEOUS

(a) AMENDMENTS AND WAIVERS. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and Deephaven Private Placement Trading Ltd. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; PROVIDED, HOWEVER, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(b) NO INCONSISTENT AGREEMENTS. Neither the Company nor any of its subsidiaries has entered, as of the date hereof, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities that would have the effect of impairing the rights granted to the Holders in this Agreement or otherwise

conflicts with the provisions hereof. Except as and to the extent specified in SCHEDULE 6(b) hereto, neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been satisfied in full.

(c) NO PIGGYBACK ON REGISTRATIONS. Except as and to the extent specified in SCHEDULE 6(b) hereto, neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in the Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right to any of its security holders.

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(d) COMPLIANCE. Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(e) DISCONTINUED DISPOSITION. Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Sections 3(d)(ii), 3(d)(iii), 3(d)(iv), 3(d)(v) or 3(d)(vi), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3(h), or until it is advised in writing (the "ADVICE") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph.

(f) PIGGY-BACK REGISTRATIONS. If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within fifteen days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such holder requests to be registered.

(g) NOTICES. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 6:30 p.m. (New York City time) on a Business Day, (ii) the Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Agreement later than 6:30 p.m. (New York City time) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as follows:

If to the Company:

NetSol International, Inc.  
24025 Park Sorrento, Suite 220  
Calabasas, California 91302  
Facsimile No.: (818) 222-9197  
Telephone No.: (818) 222-9195  
Attn: Chief Financial Officer

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With copies to:

Riordan & McKenzie  
600 Anton Blvd., 18th Floor  
Costa Mesa, California 92626  
Facsimile No.: (714) 433-2716  
Attn: Michael P. Whalen, Esq.

If to a Purchaser:

To the address set  
forth under such Purchaser's name on  
the signature pages hereto.

If to any other Person who is then the registered Holder:

To the address of such Holder as it  
appears in the stock transfer books  
of the Company

or such other address as may be designated in writing hereafter, in the same  
manner, by such Person.

(h) *SUCCESSORS AND ASSIGNS.* This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Purchase Agreement.

(i) *EXECUTION AND COUNTERPARTS.* This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(j) *GOVERNING LAW.* All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Nevada, without regard to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law.

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(k) *CUMULATIVE REMEDIES.* The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(l) *SEVERABILITY.* If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.



(m) HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(n) INDEPENDENT NATURE OF PURCHASERS' OBLIGATIONS AND RIGHTS. The obligations of each Purchaser hereunder is several and not joint with the obligations of any other Purchaser hereunder, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Purchaser shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK  
SIGNATURE PAGES TO FOLLOW]

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IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

NETSOL INTERNATIONAL, INC.

By: /s/ Salim Ghauri

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Name: Salim Ghauri  
Title: CEO

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SIGNATURE PAGES OF PURCHASER TO FOLLOW]

DEEPHAVEN PRIVATE PLACEMENT TRADING LTD.

By: /s/ Bruce Lieberman

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Name: Bruce Lieberman  
Title: Director Private Placement Trading

Address for Notice:

Deephaven Private Placement Trading Ltd.  
c/o Deephaven Capital Management LLC  
130 Cheshire Lane  
Minnetonka, MN 55305  
Facsimile No.: (952) 249-5320  
Attn: Bruce Lieberman

With a copy to: Robinson Silverman Pearce Aronsohn & Berman LLP  
1290 Avenue of the Americas  
New York, NY 10104  
Facsimile No.: (212) 541-4630 and (212) 541-1432  
Attn: Eric L. Cohen, Esq.

ANNEX A

## PLAN OF DISTRIBUTION

The Selling Stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholders may use any one or more of the following methods when selling shares:

- o ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- o block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- o an exchange distribution in accordance with the rules of the applicable exchange;
- o privately negotiated transactions;
- o short sales
- o broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
- o a combination of any such methods of sale; and
- o any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The Selling Stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a Selling Stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. The Selling Stockholders have advised the Company that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their shares other than ordinary course brokerage arrangements, nor is there an underwriter or coordinating broker acting in connection with the proposed sale of shares by the Selling Stockholders.

Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling

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Stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

The Company is required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of counsel to the Selling Stockholders. The Company has agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

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DEEPHAVEN PRIVATE PLACEMENT TRADING LTD.  
130 CHESHIRE LANE  
MINNETONKA, MN 55305

February 23, 2001

NetSol International, Inc.  
24025 Park Sorrento, Suite 220  
Calabasas, California 91302

Re: FILING DATE FOR REGISTRATION STATEMENT

Ladies and Gentlemen:

Reference is made to the Registration Rights Agreement (the "REGISTRATION RIGHTS AGREEMENT"), dated January 8, 2001, between NetSol International, Inc. (the "COMPANY") and Deephaven Private Placement Trading Ltd. (the "PURCHASER"). The parties agree that the definition of "Filing Date" in Section 1 of the Registration Rights Agreement is hereby deleted in its entirety and replaced with the following:

"Filing Date" means (A) the 5th day following the Second Settlement Date (as defined in Section 1.1(iv) of the Purchase Agreement) and (B) with respect to any additional Registration Statements which may be required pursuant to Section 3(c), the 30th day following the date that notice of the requirement to file such additional registration Statement is provided."

Except as otherwise specified in this amendment, the terms and provisions of the Registration Rights Agreement remain without modification. Please indicate your agreement with the foregoing by executing this letter and returning the same to our attention.

The Parties further agree that the 5th day following the Second Settlement Date shall be March 14, 2001.

Sincerely,

NetSol International, Inc.      Deephaven Private Placement Trading Ltd.

By: /s/ SYED HUSAIN

By: /s/ BRUCE LIEBERMAN

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Name: Syed Husain  
Title: Chief Financial Officer

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Name: Bruce Lieberman  
Title: Director - Private Placement  
Trading

March 14, 2001

Ladies and Gentlemen:

I am the General Counsel of NetSol International, Inc., a Nevada corporation (the "Company"). This opinion is submitted in connection with the registration on a Registration Statement on Form S-3 (the "Registration Statement") filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, of up to 624,875 shares of the Company's common stock, par value \$0.001 per share (the "Shares"), of which 450,364 of the Shares have been issued prior to the date hereof (the "Issued Shares"), 12,506 of the Shares will be issued shortly after the date hereof (the "Issuable Shares") and up to 162,005 of the Shares may be issued after the date hereof upon the exercise of warrants (the "Warrant Shares"). Such Shares will be sold from time to time by the shareholders named in the Registration Statement..

I have examined originals or copies, certified or otherwise, identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments as I have deemed necessary for the purposes of rendering this opinion, including the Company's Article of Incorporation, as amended, and Bylaws.

Based on the foregoing, I am of the opinion that (i) the Shares have been duly authorized, (ii) the Issued Shares have been validly issued and are fully paid and nonassessable, (iii) the Issuable Shares will be validly issued and fully paid and nonassessable upon their issuance in accordance with the terms of the Securities Purchase Agreement under which the Issued Shares were issued, and (iv) the Warrant Shares will be validly issued and fully paid and nonassessable upon the proper exercise of the warrants in accordance with their terms.

I am a member of the Bar of the State of California, and I express no opinion as to the laws of any jurisdiction other than the laws of the State of California, the General Corporation Law of the State of Nevada and the federal laws of the United States of America.

I hereby consent to the use of my name in the Registration Statement and under the caption "Legal Matters" in the related Prospectus and consent to the filing of this opinion as an exhibit to the Registration Statement.

Very truly yours,

/s/ Malea Farsai  
Malea Farsai,  
General Counsel

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

*Netsol International, Inc. and Subsidiaries*  
*(formerly Mirage Holdings, Inc.)*  
*Calabasas, California*

*We consent to the incorporation by reference in this Registration Statement on Form S-3 of our report dated September 26, 2000, with respect to the consolidated financial statements of Netsol International, Inc. and Subsidiaries included in Amendment No. 1 to the Annual Report on Form 10-KSB/A for the year ended June 30, 2000.*

*/s/ Stonefield Josephson, Inc.*  
*CERTIFIED PUBLIC ACCOUNTANTS*

*Santa Monica, California*  
*March 12, 2001*

CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS

*Netsol International, Inc. and Subsidiaries  
(formerly Mirage Holdings, Inc.)  
Calabasas, California*

*We consent to the incorporation by reference in this Registration Statement on Form S-3 of our reports dated September 06, 2000, for Network Solutions (Pvt.) Limited and NetSol Connect (Pvt.) Limited with respect to their inclusion in the consolidated financial statements of NetSol International, Inc. and Subsidiaries included in Amendment No. 1 to the Annual Report on Form 10-KSB/A for the year ended June 30, 2000.*

*/s/ Saeed Kamran Patel & Co.  
Chartered Accountants*

*Lahore, Pakistan  
March 12, 2001*

CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS

*Netsol International, Inc. and Subsidiaries  
(formerly Mirage Holdings, Inc.)  
Calabasas, California*

*We consent to the incorporation by reference in this Registration Statement on Form S-3 of our reports dated 22 September 2000, for NetSol (UK) Limited, Network Solutions Group Limited, Network Solutions Limited and Network Solutions (Northern) Limited for the periods ended 31 January 2000 and 30 June 2000 with respect to their inclusion in the consolidated financial statements of NetSol International, Inc. included in Amendment No.1 to its Annual Report on Form 10-KSB/A for the year ended June 30, 2000.*

*/s/ Mazars Neville Russell  
Chartered Accountants and Registered Auditors  
Milton Keynes, England  
March 12, 2001*