

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 1999

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 333-28861

NETSOL INTERNATIONAL, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

95-4627685

(State or other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

233 WILSHIRE BOULEVARD, SUITE 510, SANTA MONICA CA 90401  
(Address of principal executive offices) (Zip Code)

(310) 395-4073 / (310) 395-0891

(Issuer's telephone/facsimile numbers, including area code)

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

Yes  No

The issuer had 8,159,565 shares of its \$.001 par value Common Stock issued and outstanding as of November 10, 1999.

Transitional Small Business Disclosure Format (check one)

Yes  No

NETSOL INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

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NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
SEPTEMBER 30, 1999

## ASSETS

&lt;TABLE&gt;

&lt;S&gt;

&lt;C&gt;

## CURRENT ASSETS:

Cash	\$ 286,270
Accounts receivable	1,080,439
Other current assets	427,377

Total current assets	1,794,086
----------------------	-----------

## PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization

388,710

## OTHER ASSETS:

Deposits	4,415
Product license, renewals, enhancements and copyrights, net	6,118,606
Customer lists, net	1,750,082
Goodwill, net	3,464,164

Total other assets	11,337,267
--------------------	------------

	\$ 13,520,063
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## LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 1,986,667
Current maturities of obligations under capital lease	11,260
Loan payable	100,000

Total current liabilities	2,104,927
---------------------------	-----------

## OBLIGATIONS UNDER CAPITALIZED LEASES, less current maturities

45,836

## STOCKHOLDERS' EQUITY:

Common stock; \$.001 par value, 25,000,000 shares authorized, 8,389,565 shares issued and outstanding	8,390
Common stock receivable	(25,000)
Additional paid-in capital	14,561,564
Accumulated deficiency	(3,175,654)

Total stockholders' equity	11,369,300
----------------------------	------------

	\$ 13,520,063
--	---------------

&lt;/TABLE&gt;

See notes to consolidated financial statements.

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NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

&lt;TABLE&gt;

<CAPTION>

	Three months ended September 30, 1999	Three months ended September 30, 1998
<S>	<C>	<C>
NET REVENUES	\$ 1,218,508	\$ 1,336,834
COST OF REVENUES	404,544	-
GROSS PROFIT	813,964	1,336,834
OPERATING EXPENSES	1,487,513	1,314,256
OTHER INCOME/(EXPENSE)	-	25,197
NET LOSS BEFORE INCOME ALLOCATED TO MINORITY INTEREST	(673,550)	47,775
MINORITY INTEREST IN SUBSIDIARIES EARNINGS	-	(132,850)
NET LOSS	\$ (673,550)	\$ (85,075)
NET LOSS PER SHARE - Basic and diluted	(\$0.08)	(\$0.04)
WEIGHTED AVERAGE SHARES OUTSTANDING - Basic and diluted	8,045,336	1,893,450

</TABLE>

See notes to consolidated financial statements.

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NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<TABLE>  
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	Common stock Shares	Common stock Amount	Common stock receivable	Additional paid-in capital	Accumulated Deficiency	Total stockholders' equity/ (deficiency)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at June 30, 1998	1,774,065	\$ 1,774	\$ -	\$ 542,061	\$ (875,370)	\$ (331,535)
Common stock and warrants sold through initial public offering, net	251,000	251		987,733	-	987,984
Issuance of common stock in exchange for services rendered	235,000	235		710,631	-	710,866
Common stock options granted for services				199,844	-	199,844
Exercise of common stock options	105,000	105		945	-	1,050
Sale of common stock warrants	-	-		5,667		5,667
Exercise of warrants to convert to common stock	397,000	397		294,952		295,349
Issuance of common stock relating to acquisition of subsidiaries	4,690,000	4,690		9,658,810		9,663,500
Net loss for the year ended June 30, 1999					(1,626,734)	(1,626,734)
Balance at June 30, 1999	7,452,065	7,452	-	12,400,643	(2,502,104)	9,905,991
Sale of common stock through a private placement	507,500	508	(25,000)	1,014,496		990,004
Issuance of common stock in exchange for services rendered	25,000	25		74,975		75,000
Issuance of common stock relating to acquisition of subsidiaries	405,000	405		1,071,450		1,071,855
Net loss for the three months ended September 30, 1999					(673,550)	(673,550)

</TABLE>

See notes to consolidated financial statements.

NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

<TABLE>

<CAPTION>

	Three months ended September 30, 1999	Three months ended September 30, 1998
	<C>	<C>
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Net loss	\$ (673,550)	\$ (85,075)
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation and amortization	(195,583)	8,516
Non-cash compensation expense	75,000	-
Minority interest income	-	132,850
CHANGES IN ASSETS AND LIABILITIES:		
(INCREASE) DECREASE IN ASSETS:		
Accounts receivable	(561,333)	(349,335)
Other current assets	(260,307)	(26,938)
INCREASE (DECREASE) IN LIABILITIES -		
accounts payable and accrued expenses	987,394	155,884
Total adjustments	45,171	(79,023)
NET CASH USED FOR OPERATING ACTIVITIES	(628,378)	(164,098)
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:		
Proceeds from (payments on) notes receivable	-	(196,812)
Purchase of property, plant and equipment	(157,534)	(60,307)
NET CASH USED FOR INVESTING ACTIVITIES	(157,534)	(257,119)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Issuance of common stock and warrants, net	990,004	982,273
Proceeds from (payments on) notes and loans payable	100,000	(208,300)
Payments on loan payable, related party	(44,750)	(100,000)
Deferred offering costs	-	203,813
Payments on capital lease obligations	(4,785)	(2,758)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,040,469	875,028
NET INCREASE (DECREASE) IN CASH	254,557	453,811
CASH AND EQUIVALENTS, beginning of period	31,713	(5,518)
CASH AND EQUIVALENTS, end of period	\$ 286,270	\$ 448,293
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 4,500	\$ 9,382
Income taxes paid	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of 405,000 shares of common stock per stock purchase agreements	\$ 1,071,855	\$ 2,523,500
Issuance of common stock shares for services rendered	\$ 75,000	\$ -

</TABLE>

See notes to consolidated financial statements.

NETSOL INTERNATIONAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998 (UNAUDITED)

**PRINCIPLES OF CONSOLIDATION:** The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Network Solutions PVT, Ltd., Netsol UK, Limited, Netsol USA, Inc., Mindsources, Inc. and Network Solutions Group Limited. All material intercompany accounts have been eliminated in consolidation.

**BUSINESS COMBINATIONS:** During August of 1999, the Company acquired Network Solutions Group Limited, (a United Kingdom company) and Mindsources, Inc. (a United States Company) in exchange for 155,000 and 250,000 Rule 144 restricted shares of the Company's common stock, respectively. These acquisitions have been accounted for as purchase transactions and, accordingly, the fair value of the Company's stock that was issued was allocated to assets and liabilities based on estimated fair values as of the acquisition date.

**PRIVATE PLACEMENT:** The Company sold 507,500 shares of its restricted Rule 144 common stock in the amount of \$1,015,000 through a private placement offering pursuant to Rule 506 of Regulation D of the Securities and Exchange Act of 1933.

**UNAUDITED PROFORMA CONDENSED STATEMENT OF OPERATIONS:**

The following unaudited proforma results of activities assume that the acquisitions of Network Solutions Group Limited (a United Kingdom company) and Mindsources, Inc. (a United States company) occurred as of the beginning of the year, after giving effect to proforma adjustment. The proforma adjustment represents the operating results that would have occurred had these acquisitions been consummated as of the beginning of each period presented. The proforma financial information is presented for informational purposes only and is not indicative of future operating results.

<TABLE>  
<CAPTION>

	PROFORMA THREE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	-----	-----
<S>	<C>	<C>
Revenues	\$ 1,430,713	2,053,718
	=====	=====
Net loss	\$ (954,084)	\$(441,854)
	=====	=====
Net loss per share - basic	\$ (0.12)	\$ (0.23)
	=====	=====

</TABLE>

PART I - FINANCIAL INFORMATION

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
 CONDITION AND RESULTS OF OPERATIONS

THE COMPANY

NetSol International, Inc. ("Company") was incorporated under the laws of the state of Nevada on March 18, 1997. The Company's address is 233 Wilshire Blvd., Suite 510, Santa Monica, California 90401 and its telephone number is (310) 395-4073.

Effective September 15, 1998, the Company acquired 51% of Network PVT Solutions Limited ("NetSol PVT"), a software development company in Lahore, Pakistan, outstanding capital stock. In addition, the Company also purchased 43% of the outstanding capital stock of NetSol (U.K.) Limited, a corporation organized under the laws of the United Kingdom ("NetSol UK"), which is a sister company to NetSol PVT. The Company paid a purchase price for the increased interest in NetSol and the interest in NetSol UK of \$500,000 plus 490,000 shares of common stock of the Company. The Company already owned 10% of the outstanding capital stock of NetSol PVT.

On April 17, 1999, the Company entered into an agreement with NetSol PVT and NetSol UK to acquire the remaining 49% of NetSol PVT and 57% of NetSol UK in exchange for 4.2 million shares of restricted common stock of the Company

NetSol PVT was incorporated in Pakistan on August 22, 1996, under the companies ordinance of 1984, as a private company limited by shares. NetSol PVT's principle business is the design and development of software. NetSol PVT also conducts research and development on new software applications and designs.

NetSol PVT has developed several leasing and finance products creating a market within the finance industry. Currently, NetSol PVT has developed a fully integrated leasing and finance package which is a series of seven products that can be marketed in an integrated system. Mercedes Benz Finance - Singapore, Mercedes Benz Leasing - Thailand, Mercedes Benz Finance Ltd. - United Kingdom and Mercedes Benz Finance - Australia are some of NetSol PVT's customers which account for a majority of its revenues. In

addition, NetSol provides off shore development and customized Information Technology ("IT") solutions and has blue chip customers such as ICI of UK, Fuzzy Informatik of Germany and 1st Net Technologies, Inc., USA. NetSol PVT has 85 employees, 75 of which specialized in IT. NetSol PVT is the first company in Pakistan to achieve the ISO 9001 accreditation.

NetSol UK was incorporated in December 1997 under the laws of the United Kingdom. NetSol UK was established for service and support of customers in the European markets. In addition, NetSol UK was established to function as a marketing arm of the Company in Europe.

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#### RESULTS OF OPERATIONS

Three Months Ended September 30, 1999 as compared to the Three Months Ended September 30, 1998.

#### NET SALES

Net sales of \$1,218,508 for the first quarter of fiscal 2000, which ended September 30, 1999, were less than the sales of the same quarter for the previous year of \$1,336,834 by \$118,326. The sales decrease is solely attributed to the minority interest, held by the Company and prior to the 100% acquisition, effectuating sales which were not realized by the Company. Management believes the 100% acquisition of the two subsidiaries centralized in Europe and Asia will result in increased sales in the upcoming quarters.

#### COST OF SALES AND GROSS PROFIT

The gross profit was \$813,964 in the quarter ending September 30, 1999 in comparison with \$1,336,834 for the same quarter the previous year. Cost of sale for the quarter ending September 30, 1999 was \$404,544. There were no cost of sales for the period ending September 30, 1998.

#### OPERATING EXPENSES

Operating expenses were \$1,487,513 of net sales during the quarter ending September 30, 1999. This compares with \$1,314,256 for the quarter ending September 30, 1998.

Operating expenses for the quarter ending September 30, 1999 increased \$173,257 compared to the same time period in 1998. The difference was primarily due to an increase in expenses due to the 100% acquisition of NetSol UK and NetSol PVT which increased expenses.

#### INTEREST

Net interest expenses paid were \$4,500 of the net sales during the quarter ending September 30, 1999. This compares with \$9,382 for the same time last year.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash requirements are for capital expenditures and operating expenses, including labor costs, raw materials purchases, and funding of accounts receivable. The Company's primary sources of cash have been from operations of NetSol UK and NetSol PVT. For the fiscal year 2000, the increase in expense and decrease in cash was attributable to an increase in payable driven by business growth with decrease in cash resulting from greater capital expenditures, for the acquisition. In addition, the Company has made adjustments in its sales for any inter-company sales.

Accounts receivable increased \$211,998 this quarter ending September 30, 1999, as it was \$561,333 as compared with \$349,335 for quarter ending September 30, 1998. This increase was primarily due to the recent acquisition of Network Solutions Group Ltd. Other assets in the quarter ending September 30, 1999, were \$260,307 as compared with \$26,938 for the same quarter in 1998.

The Company's current plans require additional capital expenditures for the remainder of the year of approximately \$1,000,000. Year to date, the Company has expended approximately \$1,000,000. The Company believes the additional funds received from the sale of shares and warrants from the Initial Public Offering as well as private placements will generate sufficient capital to finance its operations and anticipated capital expenditures through fiscal 2000.

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#### PART II. OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

To the best knowledge of management and the Company's counsel, there is no material litigation pending or threatened against the Company.

##### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The Company did not receive any additional proceeds from its Public Offering since its Annual Report.

##### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

1. (a) The Annual Meeting of the Stockholders of the Company was held at the Los Angeles Airport Hilton and Towers at 5711 West Century Blvd., Los Angeles, CA 90045, on Friday, November 5, 1999, at 10:00 AM (PST).

(b) There were seven directors elected for the term of one year and until their successors are duly elected and qualified: Najeeb Ghauri, Salim Ghauri, Naeem Ghauri, Shahab Ghauri, Irfan Mustafa, Waheed Akbar and Cary Burch.

(c) Matters voted upon at the meeting and number of votes case are as follows:

(1) Election of Seven Directors:

FOR: 4,125,998 AGAINST : -0- ABSTAIN:  
BROKER NON-VOTES:

(2) Ratification of the appointment of Stonefield Josephson, Inc. as the Company's independent public accountants for the fiscal year ending June 30, 2000:

FOR: 4,125,998 AGAINST: -0- ABSTAIN:  
BROKER NON-VOTES:

(3) Ratification of the Incentive and Nonstatutory Stock Option Plan:

FOR: 4,125,998 AGAINST: -0-  
ABSTAIN: BROKER NON-VOTES:

2. The Company reported the 100% acquisition of Network Solution Group, Ltd., a Company based in England that designs and markets computer software.

The Company has not received the final tally of the broker votes and will file an amendment to properly report the number of broker non-votes.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

(27) Financial Data Schedule

(b) REPORTS ON FORM 8-K:

None.

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SIGNATURES

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

NETSOL INTERNATIONAL, INC.  
(Registrant)

Date: November 12, 1999

/s/ Najeeb U. Ghauri

-----  
NAJEEB U. GHOURI  
President, Chief Financial Officer

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<PERIOD-TYPE>	3-MOS	3-MOS
<FISCAL-YEAR-END>	JUN-30-2000	JUN-30-1999
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