INTRANET SOLUTIONS INC
Form 10-Q
August 14, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2001.

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period from ______________________ to ______________________.

Commission file number 0-19817.

IntraNet Solutions, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	41-1652566
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7777 Golden Triangle Drive, Eden Prairie, Minnesota	55344-3736
(Address of principal executive offices)	(Zip Code)

(952) 903-2000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, $.01 par value - 22,382,968 shares as of August 7, 2001.

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INTRANET SOLUTIONS, INC.

PART I. FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTRANET SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands)

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ASSETS	
CURRENT ASSETS:	
Cash and equivalents	$
Short-term marketable securities	8
Accounts receivable, net	2
Prepaid expenses and other current assets	
Prepaid royalties	
Total current assets	11
Long-term marketable securities, net of current	1
Property and equipment, net	
Prepaid royalties, net of current	
Other intangible assets, net	2
Deferred income taxes	
Investments in other companies	
Other	
Total assets	$18
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$
Deferred revenues	
Commissions payable	
Accrued expenses	
Total current liabilities	1
Deferred revenues, net of current portion	
Other long-term obligations	
Total liabilities	1
SHAREHOLDERS' EQUITY:	
Common stock	
Additional paid-in capital	18
Accumulated deficit	(1
Accumulated other comprehensive income (loss)	
Total shareholders' equity	17
Total liabilities and shareholders' equity	$18

See accompanying notes.

Note: The balance sheet at March 31, 2001 has been derived from audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

INTRANET SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)
(in thousands, except per share data)

	TH
REVENUES:	
Software	$
Services	
Total revenues	
COST OF REVENUES:	
Software	
Services	
Total cost of revenues	
Gross profit	
OPERATING EXPENSES:	
Sales and marketing	
General and administrative	
Research and development	
Amortization of intangible assets and other	
Total operating expenses	
Income (loss) from operations	
OTHER INCOME:	
Interest income, net	
NET INCOME	$
BASIC NET INCOME PER COMMON SHARE	$
DILUTED NET INCOME PER COMMON SHARE	$
WEIGHTED AVERAGE SHARES - BASIC	
WEIGHTED AVERAGE SHARES - DILUTED	

See accompanying notes.

INTRANET SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

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OPERATING ACTIVITIES:	
Net income...	
Adjustments to reconcile net income to cash used in operating activities:	
Depreciation and amortization..	
Amortization of intangible assets, acquisition expense and other......................	
Tax benefit from employee stock option exercises......................................	
Changes in operating assets and liabilities, net of amounts acquired:	
Accounts receivable..	
Prepaid expenses and other current assets..	
Accounts payable...	
Accrued expenses and other current liabilities.....................................	
Net cash flows used in operating activities..	
INVESTING ACTIVITIES:	
Purchases and maturities of marketable securities, net.............................	
Purchases of fixed assets..	
Purchases of investments...	
Other..	
Net cash used in investing activities..	
FINANCING ACTIVITIES:	
Payments on long-term obligations	
Issuance of common stock, net of offering expenses.................................	
Proceeds from exercise of stock options and warrants...............................	
Net cash flows provided by financing activities....................................	
Cumulative effect of foreign currency translation adjustment.......................	
Net decrease in cash...	
Cash and equivalents, beginning of period..	
Cash and equivalents, end of period..	

See accompanying notes.

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INTRANET SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

IntraNet Solutions, Inc., is a leading provider of business content management solutions. IntraNet Solutions' products enable customers to rapidly deploy business Web sites by automating the content contribution, editing, management, and publishing processes for web sites. Business and Web content from a wide variety of enterprise sources, including desktop applications, business applications, and templates, is automatically converted to output formats. These output formats, which include XML, HTML, WML, cHTML, and PDF, allow content to be viewed on the Web with just a standard browser or on a wireless device.

With headquarters in Eden Prairie, MN, the company maintains offices throughout the United States, Europe, and Australia. The company currently has more than 1,500 customers, primarily located throughout the United States and Europe.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Regulation S-X pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2001 and March 31, 2001 and the results of operations and cash flows for the three months ended June 30, 2001 and 2000. The results of operations for the three months ended June 30, 2001 are not necessarily indicative of the results for the full year.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Revenue Recognition: The Company currently derives all of its revenues from licenses of its suite of products and related services. Product license revenue is recognized when evidence of a purchase arrangement exists, the product has been shipped and accepted by the customer, the fee is determinable and collectible, and no significant obligations remain related to implementation. Technical services and support revenue consists of fees from consulting and maintenance. Consulting services include needs assessment, software integration, security analysis, application development and training. The Company bills consulting fees either on a time and materials basis or on a fixed-price schedule. The Company's clients typically purchase maintenance agreements annually, and the Company prices maintenance agreements based on a percentage of the product license fee. Clients purchasing maintenance agreements receive product upgrades, Web-based technical support and telephone hot-line support. The Company recognizes revenue from maintenance agreements ratably over the term of the agreement, typically one year. Customer advances and billed amounts due from customers in excess of revenue recognized are recorded as deferred revenue.

Cash and Equivalents: The Company considers all short-term, highly liquid investments that are

readily convertible into known amounts of cash and have original maturities of three months or less to be cash equivalents.

Short-term Marketable Securities: Investments in debt securities with a remaining maturity of three months or less at the date of purchase are classified as short-term investments. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The book value of the investments approximates their estimated market value. As of June 30, 2001 the Company's investments were in commercial paper and U.S. Government Agency securities. All investments have a contractual maturity of three months or less and are held to maturity.

Reclassifications: Certain reclassifications have been made to the three month periods ending June 30, 2000 to conform with the presentation used in the June 30, 2001 financial statements. The reclassifications did not effect net income or shareholders' equity as previously reported.

Net Income per Common Share: The Company's basic net income per share amounts have been computed by dividing net income by the weighted average number of outstanding common shares. The Company's diluted net income per share is computed by dividing net income by the weighted average number of outstanding common shares and common share equivalents relating to stock options and warrants, when dilutive.

3. ACQUISITION

On July 10, 2000, the Company acquired the Information Exchange Division ("IED") of Inso Corporation ("Inso"). IED is the market leader in Web conversion and mobile device viewing technologies and applications. Its products provide conversion of over 225 different file types to Web formats including XML, HTML or Wireless Markup Language (WML). Additionally, IED provides viewing technology for the Windows CE and Symbian operating systems that allows users of these mobile devices to readily view files from desktop applications. The transaction was accounted for under the purchase method of accounting. The Company paid aggregate consideration to Inso in the transaction of $55 million in cash, 10% of which is being held in escrow for eighteen months to satisfy potential indemnification claims. The Company recorded approximately $50 million in intangible assets, including approximately $10.4 million of in-process research and development which was expensed when the acquisition was recorded.

The amounts allocated to core technology, customer base, workforce, capitalized software, trademarks and other intangibles are being amortized over the assets' estimated useful life of three years. Similarly, the excess of cost over fair value of net assets acquired is being amortized over the assets estimated useful life of three years. The values assigned to in-process research and development were expensed at the date of acquisition, since technological feasibility had not been established. The following unaudited pro forma statement of operations information for the three months ended June 30, 2000 was prepared assuming the IED acquisition has occurred on April 1, 1999 and in process research and development has been expensed as of that date:

	THREE MONTHS ENDED JUNE 30, 2000

	(in thousands except for per share data)
Total revenues	$15,332
Net income	1,230
Net income per share:	
Basic	$ 0.06
Diluted	$ 0.05
Weighted-average shares outstanding:	
Basic	21,195
Diluted	23,092

4. INCOME TAXES

Deferred income taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for fundamental reporting purposes and amounts used for income tax purposes. A valuation has been established for a portion of the deferred tax assets to reflect their anticipated realizability.

For the periods presented, the financial statements reflect an effective tax rate of zero, due to the utilization of net operating loss carry forwards and adjustment of the deferred tax valuation allowance.

5. SUBSEQUENT EVENTS

On July 10, 2001, the Company acquired select assets of RESoft, a wholly-owned subsidiary of Stonehaven Realty Trust and a leading provider of end-to-end content management solutions for the real estate and legal industries, for 200,000 shares of IntraNet Solutions common stock valued at approximately $5.5 million. This acquisition will be accounted for under the purchase method of accounting, and the company anticipates that approximately $5.0 million of the purchase price will be allocated to intangible assets and will be amortized over a three year period.

On August 13, 2001, the Company announced it will change its name to Stellent, Inc., effective August 29, 2001.

PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

IntraNet Solutions, Inc., is a leading provider of business content management solutions, providing browser-based Web and wireless access to content-centric business Web sites and content-supported e-business applications. IntraNet Solutions' products enable customers to rapidly deploy business Web sites by automating the content contribution, editing, management, and publishing processes for these sites. Business and Web content from a wide variety of enterprise sources, including desktop applications, business applications, and templates, is automatically converted to output formats. These output formats, which include XML, HTML, WML, cHTML, and PDF, allow content to be viewed on the Web with just a standard browser or on a wireless device. Personalization and compatibility with corporate security models ensure that users access only the information they need. Our customers are primarily located throughout the United States and Europe.

We derive all of our revenues from licenses of our software products and related services. Product license revenue is recognized when evidence of a purchase arrangement exists, the product has been shipped and accepted by the customer, the fee is determinable and collectible, and no significant obligations remain related to implementation. Revenues for services consist of fees from consulting and maintenance. Consulting services include needs assessment, software integration, security analysis, application development and training. We bill consulting fees either on a time and materials basis or on a fixed price schedule. Our clients typically purchase annual maintenance agreements, and we price maintenance agreements based on a percentage of the product license fee. Clients purchasing maintenance agreements receive product upgrades, Web-based technical support and telephone hot-line support. We recognize revenues from maintenance agreements ratably over the term of the agreement, typically one year.

Cost of revenues consists of technology royalties, costs to manufacture, package and distribute our products and related documentation, as well as personnel and other expenses related to providing services. Sales and marketing expenses consist primarily of employee salaries, commissions, and costs associated with marketing programs such as advertising, public relations and trade shows. Research and development expenses consist primarily of salaries and related costs associated with the development of new products, the enhancement of existing products and the performance of quality assurance and documentation activities. General and administrative expenses consist primarily of salaries and other personnel-related costs for executive, financial, human resources, information services and other administrative personnel, as well as legal, accounting, insurance costs and provisions for doubtful accounts.

Since our inception, we have incurred substantial costs to develop and acquire our technology and products, to recruit and train personnel for our sales and marketing, research and development and services departments, and to establish an administrative organization. As a result, we had an accumulated deficit of $19.6 million at June 30, 2001. We anticipate that our operating expenses will increase substantially in future quarters as we increase sales and marketing operations, develop new distribution channels, fund greater levels of research and development, broaden services and improve operational and financial systems. In addition, our limited operating history makes it difficult for us to predict future operating results. We cannot be certain that we will sustain revenue growth or profitability.

FORWARD-LOOKING STATEMENTS

The information presented in this Item contains forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are subject to risks and uncertainties, including those discussed under "Risk Factors" below, that could cause actual results to differ materially from those projected. Because actual results may differ, readers are cautioned not to place undue reliance on these forward-looking statements.

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

REVENUES

Total revenues increased by $15.1 million, or 160%, to $24.6 million for the three months ended June 30, 2001 from $9.5 million for the three months ended June 30, 2000. The increase in revenues was attributable to the acquisition of IED, internal expansion of our customer base and increased sales to existing customers.

Product Licenses. Revenues for product licenses increased by $11.6 million, or 156%, to $19.1 million for the three months ended June 30, 2001 from $7.5 million for the three months ended June 30, 2000. The increase in revenues for product licenses was attributable to the expansion of our customer base and increased sales to existing customers.

Services. Revenues for services increased by $3.5 million or 174%, to $5.5 million for the three months ended June 30, 2001 from $2.0 million for the three months ended June 30, 2000. The increase in revenues for services was primarily attributable to a larger installed base of products.

COST OF REVENUES AND GROSS PROFIT

Total cost of revenues increased by $2.3 million or 122%, to $4.1 million for the three months ended June 30, 2001 from $1.8 million for the three months ended June 30, 2000. Total cost of revenues as a percentage of total revenues was 16% for the three months ended June 30, 2001 compared to 19% for the three months ended June 30, 2000. Gross profit increased by $12.9 million, or 169%, to $20.5 million for the three months ended June 30, 2001 from $7.6 million for the three months ended June 30, 2000. Total gross profit as a percentage of total revenues was 84% for the three months ended June 30, 2001 compared to 81% for the three months ended June 30, 2000. The increase in gross profit dollars was primarily due to increased revenues for product licenses and services.

Product Licenses. Cost of revenues for product licenses increased by $0.4 million, or 61%, to $1.1 million for the three months ended June 30, 2001 from $0.7 million for the three months ended June 30, 2000. Gross profit as a percentage of revenues for product licenses was 94% for the three months ended June 30, 2001 compared to 91% for the three months ended June 30, 2000. The increase in the gross profit was primarily attributable to the increase in our OEM business, which typically has higher product margins, and to certain royalty amounts remaining constant while revenue has increased.

Services. Cost of revenues for services increased by $1.8 million or 158%, to $3.0 million for the three months ended June 30, 2001 from $1.2 million for the three months ended June 30, 2000. Gross profit as a percentage of revenues for services was 46% for the three months ended June 30, 2001 compared to 43% for the three months ended June 30, 2000. The increase in the gross profit as a percentage of revenues for services was primarily due to increased productivity for consulting services personnel.

OPERATING EXPENSES

Sales and Marketing. Sales and marketing expenses increased by $7.0 million, or 165%, to $11.3 million for the three months ended June 30, 2001 from $4.3 million for the three months ended June 30, 2000. Sales and marketing expenses as a percentage of total revenues were 46% for the three months ended June 30, 2001 compared to 45% for the three months ended June 30, 2000. The increase in sales and marketing expense was primarily due to increased staffing and marketing expenses for advertising, branding, public relations and trade shows.

General and Administrative. General and administrative expenses increased by $1.0 million or 70%, to $2.4 million for the three months ended June 30, 2001 from $1.4 million for the three months ended June 30, 2000. General and administrative expenses as a percentage of total revenues were 10% for

the three months ended June 30, 2001 compared to 15% for the three months ended June 30, 2000. General and administrative expenses decreased as a percentage of revenues due primarily to an increase in total revenues and decreases in our provisions for doubtful accounts.

Research and Development. Research and development expenses increased by $3.1 million, or 294% to $4.2 million for the three months ended June 30, 2001 from $1.1 million for the three months ended June 30, 2000. Research and development expenses as a percentage of total revenues were 17% for the three months ended June 30, 2001 compared to 11% for the three months ended June 30, 2000. The increase in research and development expenses was primarily due to the acquisition of IED and increases in staffing and related costs to support new products and product enhancements.

Amortization of Intangibles. A portion of the purchase price of IED was allocated to excess cost over fair value of net assets acquired, core technology, customer base, software, trademarks and other intangibles, and will be amortized over the assets' estimated useful lives, of three years. Intangible amortization and other expense was $3.4 million for the three month period ended June 30, 2001.

OTHER INCOME, NET

Net interest income was $1.3 million for the three months ended June 30, 2001 compared to net interest income of $2.3 million for the three months ended June 30, 2000. Net interest income for the three months ended June 30, 2001 and 2000 was primarily related to short-term investments purchased with the proceeds of our public stock offerings completed in June 1999 and March 2000. The decrease in net interest income was primarily due to the decrease in funds invested following the purchase of IED.

NET OPERATING LOSS CARRYFORWARDS

As of March 31, 2001 we had net operating loss carryforwards of approximately $43.8 million. The net operating loss carryforwards will expire at various dates beginning in 2011, if not utilized. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Our ability to utilize net operating loss carryforwards on an annual basis will be limited as a result of "ownership changes" in connection with the sale of equity securities. We have provided a valuation allowance on a portion of the deferred tax asset because of the uncertainty regarding its realization. Our accounting for deferred taxes and the valuation allowance involves the evaluation of a number of factors such as our history of operating losses, potential future losses and the nature of assets and liabilities giving rise to deferred taxes.

Although realization of the net deferred tax asset is not assured, the Company believes based on its projections of future taxable income, that it is more likely than not that the net deferred tax asset will be realized. The amount of net deferred tax assets considered realizable however, could be adjusted in the future based on changes in conditions or assumptions.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations and satisfied our capital expenditure requirements primarily through operating revenues, revolving working capital and term loans from banking institutions, private placements and public offerings of securities. Net cash used by operating activities was $2.0 million for the quarter ended June 30, 2001, compared to net cash used by operating activities of $1.6 million for the quarter ended June 30, 2000.

To date, we have invested our capital expenditures primarily in property and equipment, consisting largely of computer hardware and software. Capital expenditures for the three months ended June 30, 2001 and 2000 were $1.8 million and $0.4 million, respectively. We have also entered into capital and operating leases for facilities and equipment. We expect that our capital expenditures will increase as our employee base grows.

As of June 30, 2001, we had $4.9 million in cash and equivalents, $96.8 million in marketable securities and $106.1 million in working capital. Net cash provided by financing activities was $1.6 million for the three months ended June 30, 2001 and $23.1 million for the three months ended June 30, 2000. In June 1999, we completed a public offering of our common stock that raised approximately $27.0 million in proceeds for the Company, net of underwriting discounts and offering costs of approximately $3.0 million. In March 2000, we completed a public offering of our common stock that raised approximately $100 million in proceeds for the Company, net of underwriting discounts and offering costs of approximately $5.9 million. In April 2000, the underwriters exercised their over-allotment option, raising additional net proceeds of approximately $22.7 million.

We currently believe that the cash and equivalents and marketable securities on hand will be sufficient to meet our working capital requirements for the foreseeable future. After that time, we may require additional funds to support our working capital requirements or for other purposes and may seek to raise such additional funds through public or private equity financings or from other sources. We cannot be certain that additional financing will be available on terms favorable to us, or on any terms, or that any additional financing will not be dilutive.

The Company continues to evaluate potential strategic acquisitions that could utilize equity and, or, cash resources. Such opportunities could develop quickly due to market and competitive factors.

PRO FORMA NET INCOME PER COMMON SHARE

The Company's pro forma basic net income per share is computed by dividing pro forma net income by the weighted average number of outstanding common shares and the Company's pro forma diluted net income per share is computed by dividing pro forma net income by the weighted average number of outstanding common shares and common share equivalents relating to stock options and warrants, when dilutive. Common stock equivalent shares consist of stock options and warrants (using the treasury stock method). The accompanying pro forma supplemental financial information is presented for informational purposes only and is not a substitute for the historical financial information presented in accordance with accounting principles generally accepted in the United States.

UNAUDITED SUPPLEMENTAL INFORMATION	THREE MONTHS ENDED JUNE 30, 2001	2000
	(in thousands except for per share data)	
Net income (loss)................................	$ 561	$ 2,989
Add back charges		
Amortization of intangible assets and other......	3,381	163
Pro forma net income before pro forma income tax...	3,942	3,152
Pro forma income tax.............................	(1,380)	(1,103)
Pro forma net income.............................	$ 2,562	$ 2,049
Pro forma net income per share:		
Basic	$ 0.12	$ 0.10
Diluted	$ 0.11	$ 0.09
Weighted average common shares outstanding:		
Basic..	22,081	21,195
Diluted..	23,753	23,092

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) 141 Business Combinations and SFAS 142 Goodwill and Intangible Assets. These pronouncements, among other things, eliminate the pooling-of-interest method of accounting for business combinations and eliminate the amortization of goodwill for financial reporting purposes. However, goodwill will then be tested for impairment annually or whenever an impairment indicator arises. SFAS 142 is effective for the Company April 1, 2002. As of April 1, 2002, the amortization of certain of the Company's intangible assets related to goodwill and workforce with an original cost of approximately $19 million and an estimated net unamortized value of approximately $8 million as of April 1, 2002 will cease and only future impairments of these assets as they occur will be recorded. These assets were acquired in July 2000 and are currently being amortized over their estimated useful life of three years.

RISK FACTORS

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q for the first quarter ended June 30, 2001 contains certain forward looking statements within the meaning of Section 21E of the Exchange Act. Such forward-looking statements are based on the beliefs of the Company's management as well as on assumptions made by and information currently available to the Company at the time such statements were made. When used in this Form 10-Q, the words "anticipate", "believe", "estimate", "expect", "intend" and similar expressions, as they relate to the Company, are intended to identify such forward-looking statements. Although the Company believes these statements are reasonable, readers of this Form 10-Q should be aware that actual results could differ materially from those projected by such forward-looking statements as a result of the risk factors listed below and set forth in the Company's Annual Report on Form 10-K for fiscal year 2001 ("Form 10-K") under the caption "Risk Factors." Readers of this Form 10-Q should consider carefully the factors listed below and under the caption "Risk Factors" in the Company's Form 10-K, as well as the other information and data contained in this Form 10-Q. The Company cautions the reader, however, that such list of factors under the caption "Risk Factors" in the Company's Form 10-K may not be exhaustive and that those or other factors, many of which are outside of the Company's control, could have a material adverse effect on the Company and its results of operations. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements set forth hereunder and under the caption "Risk Factors" in the Company's Form 10-K. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

OUR SUCCESS DEPENDS ON OUR ABILITY TO SUCCESSFULLY INTEGRATE IED WITH OUR OPERATIONS.

On July 10, 2000, we acquired IED from eBT Technologies, Inc. (formerly INSO Corporation) in a transaction accounted for under the purchase method of accounting. We are continuing to integrate the business and products of IED. We may incur unanticipated costs in the course of this integration. In addition, the integration of IED with our operations involves the following risks:

- failure to develop complementary product offerings and marketing strategies;

- failure to maintain the customer relationships of IED;

- failure to retain the employees of IED;

- failure to coordinate product development efforts; and

- diversion of management's time and attention from other aspects of our business.

We cannot be sure that we will be successful in integrating the business and products of IED with our

business and products. If we are not, our business, operating results and financial condition may be materially adversely affected.

FLUCTUATIONS IN OUR OPERATING RESULTS MAY MAKE IT DIFFICULT TO PREDICT OUR FUTURE PERFORMANCE.

While our products and services are not seasonal, our revenues and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. If our quarterly revenues or operating results fall below the expectations of investors or securities analysts, the price of our common stock could fall substantially. A large part of our sales typically occurs in the last month of a quarter, frequently in the last week or even the last days of the quarter. If these sales were delayed from one quarter to the next for any reason, our operating results could fluctuate dramatically. In addition, our sales cycles may vary, making the timing of sales difficult to predict. Furthermore, our infrastructure costs are generally fixed. As a result, modest fluctuations in revenues between quarters may cause large fluctuations in operating results. These factors all tend to make the timing of revenues unpredictable and may lead to high period-to-period fluctuations in operating results.

Our quarterly revenues and operating results may fluctuate for several additional reasons, many of which are outside of our control, including the following:

- demand for our products and services;
- the timing of new product introductions and sales of our products and services;
- unexpected delays in introducing new products and services;
- increased expenses, whether related to sales and marketing, research and development or administration;
- changes in the rapidly evolving market for Web content management solutions;
- the mix of revenues from product licenses and services, as well as the mix of products licensed;
- the mix of services provided and whether services are provided by our staff or third-party contractors;
- the mix of domestic and international sales;
- costs related to possible acquisitions of technology or businesses;
- general economic conditions; and
- public announcements by our competitors.

OUR SUCCESS DEPENDS ON OUR ABILITY TO EXPAND OUR SALES FORCE AND DISTRIBUTION CHANNELS.

To increase our market share and revenues, we must increase the size of our sales force and the number of our distribution channel partners. Our failure to do so may have a material adverse effect on our business, operating results and financial condition. There is intense competition for sales personnel in our business, and we cannot be sure that we will be successful in attracting, integrating, motivating and retaining new sales personnel. Our existing or future distribution channel partners may choose to devote greater resources to marketing and supporting the products of other companies. In addition, we will need to resolve potential conflicts among our sales force and distribution channel partners.

POTENTIAL ACQUISITIONS MAY BE DIFFICULT TO COMPLETE OR TO INTEGRATE AND MAY DIVERT MANAGEMENT'S ATTENTION.

We may seek to acquire or invest in businesses, products or technologies that are complementary to our business. If we identify an appropriate acquisition opportunity, we may be unable to negotiate favorable terms for that acquisition, successfully finance the acquisition or integrate the new business or products into our existing business and operations. In addition, the negotiation of potential acquisitions and the integration of acquired businesses or products may divert management time and resources from our existing business and operations. To finance acquisitions, we may use a substantial portion of our available cash or we may issue additional securities, which would cause dilution to our shareholders.

WE MAY NOT BE PROFITABLE IN THE FUTURE.

Our revenues may not grow in future periods, may not grow at past rates and we may not sustain our quarterly pro forma profitability. If we do not sustain our quarterly pro forma profitability, the market price of our stock may fall. Our ability to sustain our recent pro forma profitable operations depends upon many factors beyond our direct control. These factors include, but are not limited to:

- the demand for our products;

- our ability to quickly introduce new products;

- the level of product and price competition;

- our ability to control costs; and

- general economic conditions.

THE INTENSE COMPETITION IN OUR INDUSTRY MAY REDUCE OUR FUTURE SALES AND PROFITS.

The market for our products is highly competitive and is likely to become more competitive. We may not be able to compete successfully in our chosen marketplace, which may have a material adverse effect on our business, operating results and financial condition. Additional competition may cause pricing pressure, reduced sales and margins, or prevent our products from gaining and sustaining market acceptance. Many of our current and potential competitors have greater name recognition, access to larger customer bases, and substantially more resources than we have. Competitors with greater resources than ours may be able to respond more quickly than we can to new opportunities, changing technology, product standards or customer requirements.

WE MAY HAVE DIFFICULTY MANAGING OUR GROWTH.

Any failure to properly manage our growth may have a material adverse effect on our business, operating results and financial condition. The rapid growth that we have experienced places significant challenges on our management, administrative and operational resources. To properly manage this growth, we must, among other things, implement and improve additional and existing administrative, financial and operational systems, procedures and controls on a timely basis. We will also need to expand our finance, administrative and operations staff. We may not be able to complete the improvements to our systems, procedures and controls necessary to support our future operations in a timely manner. Management may not be able to hire, train, integrate, retain, motivate and manage required personnel and may not be able to successfully identify, manage and exploit existing and potential market opportunities. In connection with our expansion, we plan to increase our operating expenses to expand our sales and marketing operations, develop new distribution channels, fund greater levels of research and development, broaden services and support and improve operational and financial systems. Our failure to generate additional revenue commensurate with an increase in operating expenses during any fiscal period could have a material adverse effect on our financial results for that period.

WE DEPEND ON THE INTEGRATION AND CONTINUED SERVICE OF OUR KEY PERSONNEL.

We are a small company and depend greatly on the knowledge and experience of our senior management team, many of whom have only recently joined us, and other key personnel. If we fail to quickly integrate our team, or lose any of these key personnel, our business, operating results and financial condition could be materially adversely affected. We must hire additional employees to meet our business plan and alleviate the negative effect that the loss of a senior manager could have on us. Our success will depend in part on our ability to attract and retain additional personnel with the highly specialized expertise necessary to engineer, design and support our products and services. Like other software companies, we face intense competition for qualified personnel. We may not be able to attract or retain such personnel.

WE HAVE RELIED AND EXPECT TO CONTINUE TO RELY ON SALES OF OUR CONTENT MANAGEMENT AND VIEWING SOFTWARE PRODUCTS FOR OUR REVENUES.

We currently derive all of our revenues from product licenses and services associated with our suite of content management and viewing software products. The market for content management and viewing software products is new and rapidly evolving. We cannot be certain that a viable market for our products will emerge, or if it does emerge, that it will be sustainable. If we do not continue to increase revenues related to our existing products or generate revenues from new products and services, our business, operating results and financial condition may be materially adversely affected. We will continue to depend on revenues related to new and enhanced versions of our software products for the foreseeable future. Our success will largely depend on our ability to increase sales from existing products and generate sales from product enhancements and new products.

We cannot be certain that we will be successful in upgrading and marketing our existing products or that we will be successful in developing and marketing new products and services. The market for our products is highly competitive and subject to rapid technological change. Technological advances could make our products less attractive to customers and adversely affect our business. In addition, complex software product development involves certain inherent risks, including risks that errors may be found in a product enhancement or new product after its release, even after extensive testing, and the risk that discovered errors may not be corrected in a timely manner.

OUR SUCCESS DEPENDS ON OUR ABILITY TO PROTECT OUR PROPRIETARY TECHNOLOGY.

If we are unable to protect our intellectual property, or incur significant expense in doing so, our business, operating results and financial condition may be materially adversely affected. Any steps we take to protect our intellectual property may be inadequate, time consuming and expensive. We currently have no patents or pending patent applications. Without significant patent or copyright protection, we may be vulnerable to competitors who develop functionally equivalent products. We may also be subject to claims that our current products infringe on the intellectual property rights of others. Any such claim may have a material adverse effect on our business, operating results and financial condition.

We anticipate that software product developers will be increasingly subject to infringement claims due to growth in the number of products and competitors in our industry, and the overlap in functionality of products in different industries. Any infringement claim, regardless of its merit, could be time-consuming, expensive to defend, or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements may not be available on commercially favorable terms, or at all. We are not currently involved in any intellectual property litigation. We have been notified by a third party that it believes our Xpedio mark infringes its trademark. We intend to cease the use of this mark by September 30, 2001 and will develop and adopt a new mark.

We rely on trade secret protection, confidentiality procedures and contractual provisions to protect our proprietary information. Despite our attempts to protect our confidential and proprietary

information, others may gain access to this information. Alternatively, other companies may independently develop substantially equivalent information.

OUR PRODUCTS MAY NOT BE COMPATIBLE WITH COMMERCIAL WEB BROWSERS AND OPERATING SYSTEMS.

Our products utilize interfaces that are compatible with commercial Web browsers. In addition, Xpedio is a server-based system written in Java that functions in both Windows NT and UNIX environments. We must continually modify our products to conform to commercial Web browsers and operating systems. If our products were to become incompatible with commercial Web browsers and operating systems, our business would be harmed. In addition, uncertainty related to the timing and nature of product introductions or modifications by vendors of Web browsers and operating systems may have a material adverse effect on our business, operating results and financial condition.

WE COULD BE SUBJECT TO PRODUCT LIABILITY CLAIMS IF OUR PRODUCTS FAIL TO PERFORM TO SPECIFICATIONS.

If software errors or design defects in our products cause damage to customers' data and our agreements do not protect us from related product liability claims, our business, operating results and financial condition may be materially adversely affected. In addition, we could be subject to product liability claims if our security features fail to prevent unauthorized third parties from entering our customers' intranet, extranet or Internet Web sites. Our software products are complex and sophisticated and may contain design defects or software errors that are difficult to detect and correct. Errors, bugs or viruses spread by third parties may result in the loss of market acceptance or the loss of customer data. Our agreements with customers that attempt to limit our exposure to product liability claims may not be enforceable in certain jurisdictions where we operate.

FUTURE REGULATIONS COULD BE ADOPTED THAT RESTRICT OUR BUSINESS.

Federal, state or foreign agencies may adopt new legislation or regulations governing the use and quality of Web content. We cannot predict if or how any future laws or regulations would impact our business and operations. Even though these laws and regulations may not apply to our business directly, they could indirectly harm us to the extent that they impact our customers and potential customers.

SIGNIFICANT FLUCTUATION IN THE MARKET PRICE OF OUR COMMON STOCK COULD RESULT IN SECURITIES LITIGATION AGAINST US.

In the past, securities class action litigation has been brought against publicly held companies following periods of volatility in the price of their securities. If we were subject to such litigation due to volatility in our stock price, we may incur substantial costs. Such litigation could divert the attention of our senior management away from our business, which could have a material adverse effect on our business, operating results and financial condition.

The market price of our common stock has fluctuated significantly in the past and may do so in the future. The market price of our common stock may be affected by each of the following factors, many of which are outside of our control:

- variations in quarterly operating results;

- changes in estimates by securities analysts;

- changes in market valuations of companies in our industry;

- announcements by us of significant events, such as major sales, acquisitions of businesses or losses of major customers;

- additions or departures of key personnel; and

- sales of our equity securities.

OUR PERFORMANCE WILL DEPEND ON THE CONTINUING GROWTH AND ACCEPTANCE OF THE WEB.

Our products are designed to be used with intranets, extranets and the Internet. If the use of these methods of electronic communication does not grow, our business, operating results and financial condition may be materially adversely affected. Continued growth in the use of the Web will require ongoing and widespread interest in its capabilities for communication and commerce. Its growth will also require maintenance and expansion of the infrastructure supporting its use and the development of performance improvements, such as high speed modems. The Web infrastructure may not be able to support the demands placed on it by continued growth. The ongoing development of corporate intranets depends on continuation of the trend toward network-based computing and on the willingness of businesses to reengineer the processes used to create, store, manage and distribute their data. All of these factors are outside of our control.

OUR EXISTING SHAREHOLDERS HAVE SIGNIFICANT INFLUENCE OVER US.

Robert F. Olson, our Chairman, holds approximately 10.5% of our outstanding common stock. Accordingly, Mr. Olson is able to exercise significant control over the affairs of IntraNet Solutions. Additionally, our directors and executive officers beneficially own approximately 10.7% of our common stock. These persons have significant influence over IntraNet Solutions' affairs, including approval of the acquisition or disposition of assets, future issuances of common stock or other securities and the authorization of dividends on our common stock. Our directors and executive officers could use their stock ownership to delay, defer or prevent a change in control of IntraNet Solutions, depriving shareholders of the opportunity to sell their stock at a price in excess of the prevailing market price.

WE CAN ISSUE SHARES OF PREFERRED STOCK WITHOUT SHAREHOLDER APPROVAL, WHICH COULD ADVERSELY AFFECT THE RIGHTS OF COMMON SHAREHOLDERS.

Our Articles of Incorporation permit us to establish the rights, privileges, preferences and restrictions, including voting rights, of unissued shares of our capital stock and to issue such shares without approval from our shareholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that may be issued in the future. In addition, we could issue preferred stock to prevent a change in control of IntraNet Solutions, depriving shareholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

CERTAIN PROVISIONS OF MINNESOTA LAW MAY MAKE A TAKEOVER OF INTRANET SOLUTIONS DIFFICULT, DEPRIVING SHAREHOLDERS OF OPPORTUNITIES TO SELL SHARES AT ABOVE-MARKET PRICES.

Certain provisions of Minnesota law may have the effect of discouraging attempts to acquire IntraNet Solutions without the approval of our Board of Directors. Consequently, our shareholders may lose opportunities to sell their stock for a price in excess of the prevailing market price.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our interest income on cash and marketable securities is affected by changes in interest rates in the United States. Through June 30, 2001, changes in these rates have not had a material effect on the Company, and the Company does not anticipate that future exposure to interest rate market risk will be material.

Our investments are held in commercial paper which are affected by equity price market risk and other factors. The Company does not anticipate that exposure to these risks will have a material impact on the Company, due to the nature of its investments.

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments. Most transactions with international customers are entered into in U.S. dollars, precluding the need for foreign currency hedges. Any transactions that are currently entered into in foreign currency are not deemed material to the financial statements. Thus, the exposure to market risk is not material.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a.) EXHIBITS

EXHIBIT INDEX

FILE	DESCRIPTION	REFERENCE
3.1	Amended and Restated Articles of Incorporation	Incorporated by reference to Exhibit of the Registrant's Form 10-Q for the quarter ended September 30, 2000
3.2	Bylaws	Incorporated by reference to Exhibit

		the Registrant's Definitive Proxy Statement Schedule 14A, filed with th Securities and Exchange Commission July 22, 1997, File No. 0-19817
4.7	Warrant to purchase 225,000 shares of common stock to Merrill, Lynch, Pierce, Fenner & Smith dated February 22, 2000	Incorporated by reference to Exhibit of the Registrant's Form 10-K for the year ended March 31, 2001.
10.4	IntraNet Solutions, Inc. 1994-1997 Stock Option and Compensation Plan*	Incorporated by reference to Exhibit the Registrant's Definitive Proxy Statement Schedule 14A, filed with th Securities and Exchange Commission July 28, 1998
10.20	Stock Purchase Warrant Agreement dated December 20, 1996, by and between the Registrant and Rita M. Olson	Incorporated by reference to Exhibit 10.20 of the Registrant's Form 10-KSB the fiscal year ended March 31, 1997
10.28	InfoAccess, Inc. 1990 Stock Option Plan as amended September 29, 1999	Incorporated by reference to Exhibit of the Registrant's statement on Form S-8, File No. 333-90843
10.29	InfoAccess, Inc. 1995 Stock Option Plan as amended September 29, 1999	Incorporated by reference to Exhibit of the Registrant's statement on Form S-8, File No. 333-90843
10.30	Employment Agreement Dated August 1, 1999, by and between the Registrant and Robert F. Olson*	Incorporated by reference to Exhibit 10.30 of the Registrant's Form 10-Q f the quarter ended September 30, 1999
10.31	IntraNet Solutions, Inc. 1999 Employee Stock Option and compensation plan	Incorporated by reference to Exhibit 10.31 of the Registrant's Form 10-Q f the three months ended September 30,
10.32	Agreement and Plan of Merger among IntraNet Solutions, Inc., IntraNet Kansas City Acquisition Corporation, Inso Chicago Corporation, Inso Kansas City Corporation and Inso Corporation, dated as of July 10, 2000	Incorporated by reference to Exhibit the Registrant's Current Report on Form 8-K dated July 10, 2000
10.33	IntraNet Solutions, Inc. 2000 Stock Incentive Plan*	Incorporated by reference to Exhibit the Registrant's Definitive Proxy statement on Schedule 14A, filed with Securities and Exchange Commission on July 25, 2000
10.34	IntraNet Solutions, Inc. 2000 Employee Stock Incentive Plan*	Incorporated by reference to Exhibit 10.34 of the Registrant's Form 10-Q f the three months ended June 30, 2000
10.35	IntraNet Solutions, Inc. 1997 Directors Stock Option Plan*	Incorporated by reference to Exhibit the Registrant's Definitive Proxy Statement Schedule 14A, filed with th Securities and Exchange Commission July 28, 1998
10.36	IntraNet Solutions, Inc. Employee Stock Purchase Plan*	Incorporated by reference to Exhibit the Registrant's Definitive Proxy

Statement filed with the Securities a
Exchange Commission July 29, 1999

FILE	DESCRIPTION	REFERENCE
10.37	Employment Agreement Dated April 1, 2001 by and between the Registrant and Gregg A. Waldon*	Electronic transmission
11.1	Computation of earnings per share	Electronic transmission

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* Management contract, compensation plan or arrangement.

(b) REPORTS ON FORM 8-K

No Reports on Form 8-K were filed for the quarter ended June 30, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IntraNet Solutions, Inc.
(Registrant)

Date: August 14, 2001 By: /s/ Vern Hanzlik

Vern Hanzlik,
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2001 By: /s/ Gregg A. Waldon

Gregg A. Waldon
Chief Financial Officer, Secretary and Treasurer
(Principal Financial and Accounting Officer)

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