FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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FILER

MANGOSOFT INC

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SIC: **7373** Computer integrated systems design

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U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

[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: 0-30781

MANGOSOFT, INC.
(Exact name of small business issuer as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	87-0543565 (IRS Employer Identification No.)

1500 West Park Drive, Suite 190 Westborough, MA (Address of principal executive offices)	01581 (Zip code)

Issuer's telephone number: (508) 871-7300

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [_]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock $0.001 Par Value	26,965,001 Shares (Outstanding on August 2, 2001)

MANGOSOFT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

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MANGOSOFT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000
Software license revenues	$ 55,080	$ 2,234
Service revenues	4,890	--
Total revenues	59,970	2,234
Costs and expenses:		
Cost of software license revenues	9,844	--
Cost of services (1)	294,327	--
Engineering and development (1)	920,658	1,347,442
Selling and marketing (1)	525,159	431,927
General and administrative (1)	1,327,614	1,183,953
Stock-based compensation expense (benefit)	264,614	(9,661,760)
Consulting fees paid to related parties	--	19,000
(Loss) income from operations	(3,282,246)	6,681,672
Interest income	141,048	385,710
Net (loss) income	(3,141,198)	7,067,382
Accretion of preferred stock	--	--
Net (loss) income applicable to common stockholders	(3,141,198)	7,067,382
Net (loss) income per share applicable to common shareholders :		
Basic	$ (0.12)	$ 0.27
Diluted	$ (0.12)	$ 0.24
Weighted average shares outstanding:		
Basic	26,957,142	26,142,501
Diluted	26,957,142	29,479,898
(1) Excludes stock-based compensation expense (benefit) as follows:		
Cost of services	$ 16,775	$ --
Engineering and development	53,305	(6,161,463)
Selling and marketing	17,117	(578,789)
General and administrative	177,417	(2,921,508)

See notes to the condensed consolidated financial statements.

MANGOSOFT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

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	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000	Cumulative From June 15, 1995 (Inception) to June 30, 2001

<S>	<C>	<C>	<C>
Software license revenues	$ 182,350	$ 3,569	$ 525,501
Service revenues	16,250	--	16,250
Total revenues	198,600	3,569	541,751
Costs and expenses:			
Cost of software license revenues	25,844	--	126,691
Cost of services (1)	672,142	--	672,142
Engineering and development (1)	2,050,677	2,489,223	30,675,615
Selling and marketing (1)	1,293,081	711,710	14,338,865
General and administrative (1)	2,691,557	1,844,069	18,070,043
Stock-based compensation expense	765,887	12,504,249	6,402,232
Consulting fees paid to related parties	--	19,000	747,971
(Loss) from operations	(7,300,588)	(17,564,682)	(70,491,808)
Interest income	365,053	398,935	2,046,545
Interest expense	--	9,954	5,308,114
Net (loss)	(6,935,535)	(17,175,701)	(73,753,377)
Accretion of preferred stock	--	9,627,147	16,231,171
Net (loss) applicable to common stockholders	$(6,935,535)	$(26,802,848)	$(89,984,548)
Net (loss) per share applicable to common shareholders - basic and diluted	$ (0.26)	$ (1.16)	
Weighted average shares outstanding - basic and diluted	26,957,115	23,153,033	
(1) Excludes stock-based compensation expense as follows:			
Cost of services	$ 39,892	$ --	$ 39,892
Engineering and development	207,716	4,957,803	1,142,754
Selling and marketing	179,751	902,070	876,510
General and administrative	338,528	6,644,376	4,343,076

</TABLE>

See notes to the condensed consolidated financial statements.

MANGOSOFT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

<TABLE>
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	June 30, 2001	December 31, 2000
<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,944,522	$ 17,354,025
Accounts receivable	5,986	10,639
Prepaid expenses and other current assets	159,641	155,445
Total current assets	11,110,149	17,520,109
Property and Equipment - Net	1,043,825	1,164,916
Other Assets	2,400	2,400
Total	$ 12,156,374	$ 18,687,425
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 937,218	$ 1,285,614
Accrued compensation	332,929	286,552
Other accrued expenses and current liabilities	234,196	293,955
Total current liabilities	1,504,343	1,866,121
Commitments and Contingencies		
Stockholders' Equity:		
Common stock	26,957	26,957

Additional paid-in-capital	89,780,534	90,431,502
Deferred compensation	(2,318,639)	(3,735,869)
Deficit accumulated during the development stage	(76,836,821)	(69,901,286)
Total stockholders' equity	10,652,031	16,821,304
Total	$ 12,156,374	$ 18,687,425

</TABLE>

See notes to the condensed consolidated financial statements.

MANGOSOFT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

<TABLE>
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	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000	Cumulative From June 15, 1995 (Inception) to June 30, 2001
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(6,935,535)	$(17,175,701)	$(73,753,377)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	267,730	230,235	2,676,007
Stock-based compensation	765,887	12,504,249	6,402,232
Beneficial conversion feature of 12% convertible notes	--	--	4,860,000
Accrued interest converted into paid-in-capital in connection with the conversion of the 12% convertible notes	--	--	377,409
Increase (decrease) in cash from the change in:			
Accounts receivable	4,653	(1,185)	(5,986)
Prepaid expenses and other current assets	(4,196)	32,177	(23,553)
Accounts payable	(348,396)	170,951	1,192,581
Accrued compensation	46,377	15,642	332,929
Accrued expenses to related parties	(4,500)	(693,683)	5,500
Other accrued expenses and current liabilities	(55,259)	(309,750)	303,350
Net cash used for operating activities	(6,263,239)	(5,227,065)	(57,632,908)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(146,639)	(891,780)	(3,719,832)
Increase in other long-term assets	--	--	(2,400)
Payment of merger costs	--	(77,893)	(276,173)
Net cash used for investing activities	(146,639)	(969,673)	(3,998,405)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the issuance of notes to related parties	--	--	4,232,500
Proceeds from other debt financings	--	--	2,750,000
Repayments of notes issued to related parties	--	(232,500)	(232,500)
Repayments of other debt financings	--	(92,904)	(886,088)
Net proceeds from the issuance of common and preferred stock	375	32,145,381	66,811,923
Purchase of common stock from related party	--	--	(100,000)
Net cash provided by financing activities	375	31,819,977	72,575,835
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,409,503)	25,623,239	10,944,522
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,354,025	29,959	--
CASH AND CASH EQUIVALENTS, END OF PERIOD	$10,944,522	$ 25,653,198	$ 10,944,522

</TABLE>

See notes to the condensed consolidated financial statements.

MANGOSOFT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

MangoSoft, Inc. and subsidiary (a development stage company) (the "Company") develops advanced software technology to simplify, expand and integrate networking and pooled use of computer resources. The Company organizes itself as one segment reporting to the chief operating decision-maker.

The Company is considered to be a development stage company since it has not generated significant revenues from products or services that have been developed-to-date. The Company is subject to a number of risks similar to those of other companies in an early stage of development. Principal among these risks are dependencies on key individuals, competition from other substitute products and larger companies, the successful development and marketing of its products and the need to obtain adequate additional financing necessary to fund future operations. See "Risk Factors."

As shown in the condensed consolidated financial statements, during the six months ended June 30, 2001 and 2000 and cumulative for the period from June 15, 1995 (inception) to June 30, 2001, the Company incurred net losses of $6,731,813, $17,175,701 and $73,549,655, respectively. Excluding the effect of stock-based compensation charge, the net loss for the six-month periods ended June 30, 2001 and 2000 and cumulative for the period from June 15, 1995 (inception) to June 30, 2001 would have been $6,169,648, $4,671,452 and $67,351,145. However, in 2000, the Company raised significant capital; capital which management believes will be sufficient to fund its operations for the next twelve months. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis and ultimately to attain profitability.

2. PRESENTATION OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements. In the opinion of management, all significant adjustments, which are normal, recurring in nature and necessary for a fair presentation of the financial position, cash flows and results of the operations of the Company, have been consistently recorded. The operating results for the interim periods presented are not necessarily indicative of expected performance for the entire year.

The unaudited information should be read in conjunction with the audited financial statements of the Company and the notes thereto for the year ended December 31, 2000 included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission.

Revenue Recognition - Software license revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred and collection is probable. Revenue from sales to distributors is recognized upon sales to end customers. Service revenue is recognized as services are provided.

Comprehensive Income - Comprehensive loss was equal to net loss for each period.

Reclassifications - Certain reclassifications have been made to the interim 2000 and cumulative since inception amounts to conform to the 2001 presentation.

Supplemental Cash Flow Information - The following table sets forth certain supplemental cash flow information for the six months ended June 30, 2001 and 2000, and cumulative for the period from June 15, 1995 (inception) to June 30, 2001:

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	Six Months Ended June 30,	Cumulative

	2001	2000	Since Inception
Cash paid for interest.................................	$ --	$ 9,954	$ 98,151
Non Cash Financing Activities:			
Fair value of warrants issued in connection with the sale of the convertible preferred stock, Series A.....	--	711,229	711,229
Conversion of accounts payable into common stock.......	--	100,000	420,000

3. RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 is effective immediately and SFAS No. 142 will be effective January 2002. The new standards are not expected to have a significant impact on the Company's consolidated financial statements.

4. STOCKHOLDERS' EQUITY

In March 2000, the Company completed the sale of 2.5 million shares of a new issuance of Convertible Preferred Stock, Series A, (the "Preferred Stock") to accredited investors at $4.00 per share. The Preferred Stock was convertible into common stock (initially at a ratio of one to one) and had a liquidation preference of $10.0 million. The Preferred Stock would automatically convert to common stock upon the subsequent sale of an additional $10.0 million of the Company's securities.

In accordance with Emerging Issues Task Force Abstract No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," the net proceeds from the Series A financing were allocated between the conversion feature and the preferred stock; because the fair value of the common stock was significantly in excess of the conversion price implicit in the Series A stock, the net proceeds were allocated to the conversion feature. Since the Preferred Stock was immediately convertible into common stock, an immediate dividend or accretion of $9,050,371 was recorded from common stockholders' equity to the carrying value of the Preferred Stock.

In March 2000, the Company completed the sale of approximately 4.2 million shares of common stock to accredited investors at $5.00 per share. Upon completion of the sale of common stock, the Preferred Stock automatically converted, in accordance with its terms, into 2.5 million shares of common stock. The Company completed the sale of approximately 0.3 million additional shares of common stock at prices ranging from $4.00 to $5.00 per share in May 2000.

Costs incurred in connection with the sale of the common and Preferred Stock were $947,129, including $711,229 representing the fair value of warrants issued to the placement agent to purchase 58,975 shares of the common stock at $4.00 per share. The fair value of the warrants was calculated using the Black-Scholes option-pricing model, with a risk-free interest rate of 6%, an expected life of two years, no dividends and a volatility of 150%. Because the Preferred Stock was immediately convertible into common stock, an immediate dividend or accretion of $576,776, representing the difference between the quoted market price of the common stock and the exercise price of the warrants was recorded from common stockholders equity relating to the warrants.

5. STOCK-BASED COMPENSATION

The Company accounts for stock options granted to employees in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, stock options that include stock appreciation rights ("SARs") are accounted for as variable awards and compensation expense is measured at each reporting date based on the difference between the exercise price and the market price of the common stock. For unvested awards, compensation expense is recognized over the vesting period; for vested awards, compensation expense is adjusted up or down at each reporting date based on changes in the market price of the common stock. At June 30, 2001 and 2000, there were 2,705,282 and 2,949,556 options, respectively, to purchase the Company's common stock that included SARs.

On April 3, 2001, the Company's Board of Directors resolved to reprice options to purchase 2,584,167 shares of the Company's common stock. The options were originally issued between October 1999 and December 2000 and had exercise prices ranging from $1.88 to $5.00 per share. The exercise price for these options was reduced to $1.03, the closing market value of the Company's common stock as of the repricing date. The repriced options continue to vest according to the original grant date. These options are now accounted for as variable awards, similar to the SARs. At June 30, 2001, there were 2,120,609 outstanding options to purchase the Company's common stock that were repriced and subject to variable plan accounting.

During the six months ended June 30, 2001, the Company recorded stock-based compensation expense of $765,887. This expense is due primarily to the amortization of $598,064 of deferred stock-based compensation recognized as the result of the Company's issuance of stock options to employees at exercise prices less than the quoted market price on the grant date. In addition, stock-based compensation of $99,163 was recognized in connection with the Company's issuance of 92,973 options to non-employees in lieu of cash compensation. The remainder of the stock-based compensation expense was recorded as a result of the effects of the decrease in the quoted market price of the Company's common stock and its affect on outstanding stock options accounted for as variable awards.

During the three months ended June 30, 2001, the Company recorded stock-based compensation expense of $264,614. This expense is due primarily to the amortization of $203,722 of deferred stock-based compensation recognized as the result of the Company's issuance of stock options to employees at exercise prices less than the quoted market price on the grant date. In addition, stock-based compensation of $68,723 was recognized in connection with the Company's issuance of 67,973 options to non-employees in lieu of cash compensation. The remainder of the stock-based compensation expense was a $7,831 benefit recorded as a result of the effects of the decrease in the quoted market price of the Company's common stock and its affect on outstanding stock options accounted for as variable awards.

6. NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects, in addition to the weighted average number of common shares, the potential dilution if potential common shares outstanding were exercised and/or converted into common stock, unless the effect of such equivalent shares was antidilutive.

For the three months ended June 30, 2001 and the six months ended June 30, 2001 and 2000, the effect of stock options and other potential common shares were excluded from the calculation of diluted net loss per common share as their inclusion would have been antidilutive.

7. REDUCTION IN FORCE

Effective April 23, 2001, the Company implemented an approximate 40% reduction in its work force. In connection with this work force reduction, the Company eliminated the positions held by two members of senior management in addition to twenty-three other employees.

The Company recorded approximately $400,000 in severance and other related personnel costs associated with this reduction in work force. As of June 30, 2001, approximately $125,000 remained unpaid and accrued related to the severance payments. This accrued balance will be paid over the next twelve months.

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

This Quarterly Report on Form 10-QSB contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements in this Quarterly Report that are not statements of historical facts are forward-looking statements, which involve risks and uncertainties. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Our actual results may differ materially from those indicated in the forward-looking statements as a result of the factors set forth elsewhere in this Quarterly Report on Form 10-QSB, including under "Risk Factors." You should read the following discussion and analysis together with our condensed consolidated financial statements for the periods specified and the related notes included herein. Further reference should be made to our Annual Report on Form 10-KSB for the period ended December 31, 2000 filed with the Securities and Exchange Commission.

Overview

We develop Internet business software and services that improve the utility and effectiveness of Internet-based business applications. We develop, market and support software solutions to address the networking needs of small businesses, workgroups and large enterprises. Our products and services enhance the performance of PC networks and deliver improved service utilizing existing equipment.

Cachelink(TM) is a peer-to-peer clustered web cache. Cachelink utilizes our peer-to-peer clustering technology to efficiently link together the individual browser caches of multiple systems on a LAN into an aggregated "super cache," resulting in much faster Internet access without the expense of a dedicated hardware caching appliance or server. Cachelink is a pure peer-to-peer architecture, including a completely decentralized directory. The product is self-configuring and self-healing from any number of system failures.

Mangomind(TM) is a new multi-user, business-oriented, peer-to-peer file sharing service, allowing individual users to collaborate over the Internet across organizational boundaries in a safe and secure manner. The architecture is a blend of the manageability of client/server with the autonomy, clustering, and caching optimizations of peer-to-peer. The user experience is one of easy file sharing with colleagues through what looks like an ordinary LAN shared drive.

The majority of our revenues from current operations are derived from sales of our Cachelink product, for which sales under our July 13, 2000 Value Added Reseller Agreement with 3Com Corporation ("3Com") have amounted to $189,000, or 35%, of our cumulative revenues since inception. We recognize revenue generated from the sale of Cachelink when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred and collection is probable. We began marketing and selling our Mangomind service to professional service organizations and other business organizations in January 2001 and have generated $16,250 in revenues to date. We recognize revenue generated from the sale of the Mangomind service as the service is provided.

Cost of software license revenues primarily consist of disk replication costs and other costs we incur in connection with sales of Cachelink.

Cost of services consist solely of the expenses we incur to administer the Mangomind service. These expenses consist primarily of salaries and related personnel costs, the cost of our outsourced data center, and the license royalties we pay to our e-security software provider for the 128-bit encryption the Mangomind service employs.

Engineering and development expenses consist primarily of salaries and related personnel costs and other costs related to the design, development, testing, deployment and enhancement of our products and services. We have expensed our engineering and development costs as incurred. The engineering, research and development we perform is essential to providing the most robust, reliable and secure products and services to our end customers to meet their requirements and those of a changing market.

Selling and marketing expenses consist primarily of salaries and related personnel costs and additional costs incurred to market our products and services such as the costs of attending and presenting at trade shows.

General and administrative expenses consist primarily of salaries and related personnel costs and other general corporate costs such as facility costs, commercial and general liability insurance, accounting and legal expenses and other costs typical of a publicly held corporation.

Effective April 23, 2001, we implemented an approximate 40% reduction in our work force due to adverse economic conditions and our need to conserve capital. We believe that this reduction was necessary to reduce our overhead and enable us to grow our business and position ourselves for greater long-term success. We incurred approximately $400,000 in severance and other personnel related costs in connection with this action. Of this total, approximately $205,000 was charged to engineering and development expenses, $175,000 was charged to general and administrative expenses and $20,000 was charged to selling and marketing expenses. At June 30, 2001, all but approximately $125,000 of these expenses was fully paid.

We are considered to be a development stage company since we have not generated significant revenues from the products and services that have been developed to date. We are subject to a number of risks similar to those of other companies in an early stage of development. Principal among these risks are dependencies on key individuals, competition from other substitute products and larger companies, the successful development and marketing of our products and services and the need to obtain adequate additional financing necessary to fund future operations.

Results of Operations - Three Months Ended June 30, 2001 and 2000

Revenues for the three months ended June 30, 2001 increased $57,736 to $59,970 compared with $2,234 for the comparable period in 2000. We recognized $55,080 from the sale of our Cachelink product and $4,890 from the sale of our Mangomind service. Sales of Cachelink under our July 13, 2000 Value Added Reseller Agreement with 3Com of $54,000 represented approximately 90% of our revenues for the three-month period ended June 30, 2001. Customers representing 10% or more of our revenues for the three-month period ended June 30, 2000 were IPEX Information Technology Group and Nokia Corporation (formerly Ramp Networks, Inc.) (approximately 50% and 15%, respectively). No other customer accounted for more than 10% of our sales for either period.

Cost of software license revenues for the three months ended June 30, 2001 consisted primarily of disk replication costs incurred in connection with our sales of Cachelink under our agreement with 3Com. There were no such costs incurred in the three-month period ended June 30, 2000.

Cost of services for the three months ended June 30, 2001 consisted primarily of managed storage service costs and the salaries and related personnel costs of our dedicated technical support and Mangomind operations teams. There were no such costs incurred in the three-month period ended June 30, 2000.

Engineering and development expenses for the three months ended June 30, 2001 decreased approximately 32% or $426,784 to $920,658 from $1,347,442 for the comparable period in 2000. The decrease in engineering and development was primarily due to a decrease in our engineering and development personnel headcount and its related effect on salaries and related personnel costs. A significant

portion of our April 23, 2001 work force reduction was made to our engineering and development departments. The remainder of the decrease was attributable to various cost saving measures employed since the beginning of 2001.

Other operating expenses including selling and marketing and general and administrative expenses for the three months ended June 30, 2001 increased approximately 15% or $236,893 to $1,852,773 from $1,615,880 for the comparable period in 2000. The growth in these expenses is primarily attributable to our increased efforts in developing sales channels, an internal sales force, fostering strategic relationships and other general corporate expenses. We began an aggressive cost savings plan in the beginning of 2001 that reduced approximately $279,000 from these expenses from the three-month period ended March 31, 2001.

Stock-based compensation expense of $264,614 was recorded for the three-month period ended June 30, 2001 compared to a benefit of $9,661,760 for the comparable period in 2000. Included in the 2001 expense was $203,722 in amortization of deferred stock-based compensation recognized as the result of the Company's issuance of stock options to employees at exercise prices less than the quoted market price on the grant date. In addition, stock-based compensation of $68,723 was recognized in connection with the Company's issuance of 67,973 options to non-employees in lieu of cash compensation. The remainder of the stock-based compensation expense was a $7,831 benefit recorded as a result of the effects of the decrease in the quoted market price of the Company's common stock and its affect on outstanding stock options accounted for as variable awards. The benefit recorded in 2000 was attributable to the decline in the market value of our common stock and its affect on SARs. See note 4 to the condensed consolidated financial statements.

Excluding the non-cash effects of stock-based compensation, the loss from operations for the three months ended June 30, 2001 increased $37,544 to $3,017,632 from $2,980,088 for comparable period in 2000 as a result of the above factors.

Interest income decreased $244,662 to $141,048 for the three months ended June 30, 2001 compared to $385,710 for the three months ended June 30, 2000. The decrease is attributable to the use of the proceeds we received from the sales of common stock and the Convertible Preferred Stock, Series A in March, April and May 2000 in our operations and its affect on our interest bearing cash accounts.

Results of Operations - Six Months Ended June 20, 2001 and 2000

Revenues for the six months ended June 30, 2001 increased $195,031 to $198,600 compared with $3,569 for the comparable period in 2000. We recognized $182,350 from the sale of our Cachelink product and $16,250 from the sales of our Mangomind service. Sales of Cachelink under our July 13, 2000 Value Added Reseller Agreement with 3Com and Kacom, Inc., a Korean systems integrator, of $144,000 and $25,500, respectively, represented approximately 73% and 13% of our revenues for the six-month period ended June 30, 2001. Customers representing 10% or more of our revenues for the three-month period ended June 30, 2000 were IPEX Information Technology Group and Nokia Corporation (formerly Ramp Networks, Inc.) (approximately 32% and 17%, respectively). No other customer accounted for more than 10% of our sales for either period.

Cost of software license revenues for the six months ended June 30, 2001 consisted primarily of disk replication costs incurred in connection with our sales of Cachelink to 3Com. There were no such costs incurred in the six-month period ended June 30, 2000.

Cost of services for the six months ended June 30, 2001 consisted primarily of managed storage service costs and the salaries and related personnel costs of our dedicated technical support and Mangomind operations teams. There were no such costs incurred in the six-month period ended June 30, 2000.

Engineering and development expenses for the six months ended June 30, 2001 decreased approximately 18% or $438,546 to $2,050,677 from $2,489,223 for the comparable period in 2000. The decrease in engineering and development was primarily due to a decrease in our engineering and development personnel and its related effect on salaries and related personnel costs. A significant portion of our April 23, 2001 work force reduction was made to our engineering and development departments. The remainder of the decrease was attributable to various cost saving measures employed since the beginning of 2001.

Other operating expenses including selling and marketing and general and administrative expenses for the six months ended June 30, 2001 increased approximately 56% or $1,428,859 to $3,984,638 from $2,555,779 for the comparable period in 2000. The growth in these expenses is primarily attributable to our increased efforts in developing sales channels, an internal sales force, fostering strategic relationships and other general corporate uses. We began an aggressive cost savings plan in the beginning of 2001 that, in effect, curtailed our mass marketing campaigns that had begun in the third and fourth quarters of 2000.

Stock-based compensation expense of $765,887 was recorded for the six-month period ended June 30, 2001 compared to $12,504,249 for the comparable period in 2000. The significant decrease in this expense is primarily attributable to the fluctuations in the market price of our common stock and the related impact on stock-based compensation recorded on employee stock options accounted for as variable awards. See note 4 to the condensed consolidated financial statements.

Excluding the non-cash effects of stock-based compensation, the loss from operations for the six months ended June 30, 2001 increased $1,474,268 to $6,534,701 from $5,060,433 for comparable period in 2000 as a result of the above factors.

Interest income decreased $33,882 to $365,053 for the six months ended June 30, 2001 compared to $398,935 for the six months ended June 30, 2000. The decrease is attributable to the use of the proceeds we received from the sale of common stock and the Convertible Preferred Stock, Series A in March, April and May 2000 in our operations and its effect on our interest bearing cash accounts.

Financial Condition, Liquidity and Capital Resources

We were formed in June 1995 and, since our formation, have raised approximately $74.2 million in gross proceeds as of June 30, 2001 through the private placement of debt and equity securities. Approximately $32.2 million of these proceeds were raised in 2000.

In addition, we have, at times, depended upon bank debt, loans from stockholders and directors and credit from suppliers to meet interim financing needs. Borrowings from stockholders and directors have generally been refinanced with new debt instruments or converted into additional equity. At June 30, 2001, approximately $1.5 million in additional financing was provided through accounts payable, accrued expenses and other trade credit.

At June 30, 2001, we had a cash balance of approximately $10.9 million and working capital of approximately $9.6 million. Excluding our facility lease and other minor equipment leases, we do not have any long-term obligations.

We are in the development stage, and to date, our product sales have provided a minor source of liquidity. From inception through June 30, 2001, we have generated approximately $542,000 in sales and incurred cumulative net losses of approximately $73.5 million.

Effective April 23, 2001, we implemented an approximate 40% reduction in our work force due to adverse economic conditions and our need to conserve capital. We believe that this reduction was necessary to reduce our overhead and enable us to grow our business and position ourselves for greater long-term

success. We incurred approximately $400,000, of which all but approximately $125,000 was paid as of June 30, 2001, in severance and other personnel related costs in connection with this action.

We believe that unless we can generate a significant level of on-going revenue and attain adequate profitability in the near-term, we will need to seek additional sources of equity or debt financing. Although we have been successful in obtaining financing in the past, there can be no assurance that any additional financing will be available to us on commercially reasonable terms or at all. Our inability to obtain additional financing when needed will have a material adverse effect on our business and prospects, requiring us to significantly curtail or possibly cease our operations. In addition, any additional equity financing may involve substantial dilution to the interests of our then existing shareholders.

We believe that we have adequate funding to continue operations at least for the next twelve (12) months based on our current and forecasted expenses and cash flows.

Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 is effective immediately and SFAS No. 142 will be effective January 2002. The new standards are not expected to have a significant impact on our consolidated financial statements.

Risk Factors

We Have A Limited Operating History And A History Of Substantial Operating Losses.

Our current operations substantially commenced in May 1997. Accordingly, our prospects should be evaluated based on the expenses and operating results typically experienced by any early stage business. We have a history of substantial operating losses and an accumulated deficit of approximately $76.6 million as of June 30, 2001. For the six months ended June 30, 2001 and the year ended December 31, 2000, our losses from operations, excluding the net effects of stock-based compensation, were $6.5 million and $13.9 million, respectively. We have historically experienced cash flow difficulties primarily because our expenses have exceeded our revenues. We expect to incur additional operating losses and expect cumulative losses to increase substantially as our marketing, sales, and research and development efforts expand.

Our Performance Depends On Market Acceptance Of Our Products.

We expect to derive a substantial portion of our future revenues from the sales of Cachelink and the Mangomind service, both of which are in the initial marketing phase. If markets for our products and services fail to develop, develop more slowly than expected or are subject to substantial competition, our business, financial condition and results of operations will be materially and adversely affected.

We Have A Multi-faceted Market Strategy.

We expect our future marketing efforts will substantially focus on developing business relationships with technology companies that seek to augment their business by offering our products and services to their customers. Our inability to enter into and retain strategic relationships, or the inability of such technology companies to market our products and services effectively, could materially and adversely affect our business, operating results and financial condition.

We Will Need Additional Financing.

We will require substantial additional capital to finance our future growth and product development. We can provide no assurance that we will obtain additional financing sufficient to meet our future needs on commercially reasonable terms or otherwise. If we are unable to obtain the necessary financing, our business, operating results and financial condition will be materially and adversely affected.

There May Be Limited Liquidity In Our Common Stock And Its Price May Be Subject To Fluctuation.

Our common stock is currently traded on the OTC Bulletin Board and there is only a limited market for our common stock. We can provide no assurance that we will be able to have our common stock listed on an exchange or quoted on Nasdaq or that it will continue to be quoted on the OTC Bulletin Board. If there is no trading market, the market price of our common stock will be materially and adversely affected.

Rapidly Changing Technology And Substantial Competition May Adversely Affect Our Business.

Our business is subject to rapid changes in technology. We can provide no assurances that research and development by competitors will not render our technology obsolete or uncompetitive. We compete with a number of computer hardware and software design companies that have technologies and products similar to those offered by us and have greater resources, including more extensive research and development, marketing and capital than us. We can provide no assurance that we will be successful in marketing our existing products and developing and marketing new products in such a manner as to be effective against such competition. If our technology is rendered obsolete or we are unable to compete effectively, our business, operating results and financial condition will be materially and adversely affected.

Litigation Concerning Intellectual Property Could Adversely Affect Our Business.

We rely on a combination of trade secrets, copyright and trademark law, contractual provisions, confidentiality agreements and certain technology and security measures to protect our proprietary intellectual property, technology and know-how. However, we can provide no assurance that our rights in our intellectual property will not be infringed upon by competitors or that competitors will not similarly make claims against us for infringement. If we are required to be involved in litigation involving intellectual property rights, our business, operating results and financial condition will be materially and adversely affected.

Our Success Depends on Key Personnel.

Our success is dependent upon the efforts of our senior management personnel. The loss of members of our senior management group could have a material adverse effect on our business. In addition, competition for qualified personnel in the computer software industry is intense, and we can provide no assurance that we will be able to retain existing personnel or attract and retain additional qualified personnel necessary for the development of our business. Our inability to attract and retain such personnel would have a material adverse effect on our business, financial condition and results of operations.

Defects In Our Software May Adversely Affect Our Business.

Complex software products and services such as the software developed by MangoSoft may contain defects when introduced and also when updates, upgrades and new versions are released. Our introduction of software with defects or quality problems could result in adverse publicity, product returns, reduced orders, uncollectible or delayed accounts receivable, product redevelopment costs, loss of or delay in market acceptance of our products and services or claims by customers or others against us. Such problems or claims could have a material adverse effect on our business, financial condition and results of operations.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger by and among First American Clock Co., MangoSoft Corporation and MangoMerger Corp., dated as of August 27,1999. (1)
3.1	Articles of Incorporation, as amended. (2)
3.2	By-laws. (2)
10	Lease of Westborough Office Park, Building Five, dated November 10, 1995. (3)
16	Letter on Change in Certifying Accountant. (4)
21	Subsidiary of the Registrant. (2)
99.1	1999 Incentive Compensation Plan, as amended and restated on May 1, 2000. (2)
99.2	Form of Subscription Agreement for purchase of common stock, dated as of March 20, 2000. (2)
99.3	Form of Warrant Agreement. (2)
99.4	Value Added Reseller Agreement, dated July 14, 2000, between MangoSoft, Inc. and 3Com Corporation. (5)

(1) Filed as an exhibit to our Current Report on Form 8-K for an event dated September 7, 1999 and hereby incorporated by reference thereto.
(2) Filed as an exhibit to our Registration Statement on Form 10-SB, filed June 9, 2000, and hereby incorporated by reference thereto.
(3) Filed as an exhibit to our Quarterly Report filed November 9, 1999 for the quarter ended September 30, 1999 and hereby incorporated by reference thereto.
(4) Filed as an exhibit to our Current Report on Form 8-K/A for an event dated January 11, 2000 and hereby incorporated by reference thereto.
(5) Filed as an exhibit to our Registration Statement on Form 10-SB/A, filed August 30, 2000, and hereby incorporated by reference thereto.

(b) Report on Form 8-K:

On April 24, 2001, we filed on Form 8-K a notification that we implemented an approximate 40% reduction in our work force effective April 23, 2001. In connection with this work force reduction, we eliminated the positions held by Ms. Linda Myers-Tierney, Senior Vice President and Chief Marketing Officer, and Mr. Thomas Teixeira, Vice President of Engineering.

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.

August 3, 2001 MANGOSOFT, INC.

/s/ Robert E. Parsons

Robert E. Parsons
Chief Financial Officer
(Principal Financial and Accounting Officer)