FORM 8-K/A

Current report filing [amend]

Filing Date: **1999-09-10** | Period of Report: **1998-12-04**
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FILER

INSO CORP

CIK:**917471**| IRS No.: **043216243** | State of Incorp.:**DE** | Fiscal Year End: **0131**
Type: **8-K/A** | Act: **34** | File No.: **000-23384** | Film No.: **99709616**
SIC: **7372** Prepackaged software

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
AMENDMENT NO. 1 TO CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of Report (Date of earliest event reported) December 4, 1998

INSO CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	000-23384	04-3216243
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

31 ST. JAMES AVENUE, BOSTON, MASSACHUSETTS	02116-4101
(Address of principal executive offices)	(Zip code)

(Registrant's telephone number, including area code) (617) 753-6500

N/A

(Former name or former address, if changed since last report)

This Amendment No.1 to Current Report on Form 8-K/A is filed for the purpose of filing the financial statements of Sherpa Systems Corporation required by Item 7(a) and the pro forma financial information required by Item 7(b).

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements of Business Acquired.

Financial statements of the business acquired are filed as Exhibit 99.1 hereto and incorporated herein by reference.

(b) Pro Forma Financial Information.

Pro Forma financial information is filed as Exhibit 99.2 hereto and incorporated herein by reference.

(c) Exhibits

2.1 Share Exchange Agreement and Agreement and Plan of Merger among Inso Corporation, Tabasco Corp., Sherpa Systems Corporation and The Selling Stockholders named therein. (previously filed).

4.1 Form of Warrant (previously filed).

20.1 Press release, dated November 11, 1998 (previously filed).

20.2 Press release, dated December 4, 1998 (previously filed).

23.1 Consent of Independent Accountants (filed herewith).

99.1 Financial Statements of Business Acquired (filed herewith).

99.2 Pro Forma Financial Information (filed herewith).

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 hereunto duly authorized this 10th day of September 1999.

Inso Corporation

By /s/ Robert F. Dudley

Robert F. Dudley
Vice President and Chief
Financial Officer

EXHIBIT INDEX

Exhibit No.	Exhibit Description
2.1	Share Exchange Agreement and Agreement and Plan of Merger among Inso Corporation, Tabasco Corp., Sherpa Systems Corporation and The Selling Stockholders named therein (previously filed).
4.1	Form of Warrant (previously filed).
20.1	Press release, dated November 11, 1998 (previously filed).
20.2	Press release, dated December 4, 1998 (previously filed).
23.1	Consent of Independent Accountants (filed herewith).
99.1	Financial Statements of Business Acquired (filed herewith).
99.2	Pro Forma Financial Information (filed herewith).

Exhibit 23.1

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-69259) and Forms S-8 (No. 33-77302, 33-83606, 33-77304, 33-93324, 333-06847, 333-06845, 333-67771, 333-67773, and 333-67777) of Inso Corporation of our report dated March 27, 1998, except for paragraph 1 of Note 12 which is as of August 28, 1998, relating to the consolidated financial statements of Sherpa Systems Corporation, which appears in the Current Report on Form 8-K/A of Inso Corporation.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

San Jose, California
September 8, 1999

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EXHIBIT 99.1

SHERPA SYSTEMS CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1997

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Sherpa Systems Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Sherpa Systems Corporation and its subsidiaries at December 31, 1996 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

San Jose, California
March 27, 1998, except for paragraph 1 of Note 12
which is as of August 28, 1998

SHERPA SYSTEMS CORPORATION
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT PAR VALUES)

<TABLE>
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	DECEMBER 31, 1996	DECEMBER 31, 1997	SEPTEMBER 30, 1998 (UNAUDITED)
<S>	<C>	<C>	<C>
ASSETS			
Current assets:			
Cash and cash equivalents	$ 5,205	$ 4,124	$ 772
Accounts receivable, net	13,439	13,022	14,105
Other current assets	1,025	1,275	1,811
Total current assets	19,669	18,421	16,688
Accounts receivable, noncurrent	1,178	1,520	330
Property and equipment, net	3,373	2,969	2,310
Other assets	1,414	1,279	1,119
	$25,634	$24,189	$20,447
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank loan	$ 1,129	$ 2,500	$ 3,500
Capital leases	806	1,235	1,014
Accounts payable	5,288	2,824	2,553
Accrued expenses	3,395	4,086	4,097
Deferred revenue	4,209	6,748	7,736
Total current liabilities	14,827	17,393	18,900
Capital leases, noncurrent	1,211	1,435	694
	16,038	18,828	19,594
Commitments and contingencies (Notes 3 and 5)			
Shareholders' equity:			
Preferred stock, Series A, $0.01 par value; 6,000 shares authorized; 5,454 shares issued and outstanding (liquidation value $8,181)	54	54	54
Common stock, $0.01 par value; 15,000 shares authorized; 3,960, 4,423 and 4,665 (unaudited) shares issued and outstanding	39	44	47
Additional paid-in capital	22,288	22,474	22,712
Notes receivable for purchase of common stock	(106)	(113)	(286)
Cumulative comprehensive losses	(425)	(189)	(103)
Accumulated deficit	(12,254)	(16,909)	(21,571)
Total shareholders' equity	9,596	5,361	853
	$25,634	$24,189	$20,447

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

SHERPA SYSTEMS CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	NINE MONTHS ENDED SEPTEMBER 30,

<S>	1995 <C>	1996 <C>	1997 <C>	1997 (UNAUDITED) <C>	1998 <C>
Revenue:					
Software licenses	$14,880	$18,824	$19,333	$13,874	$10,684
Service and maintenance	11,913	13,997	16,090	11,477	13,849
Total revenue	26,793	32,821	35,423	25,351	24,533
Operating costs and expenses:					
Cost of software licenses	1,438	1,935	2,784	1,952	1,696
Cost of service and maintenance	7,025	8,995	10,042	7,506	7,375
Selling and marketing	9,344	11,201	12,888	9,483	9,207
Research and development	5,147	6,561	7,510	5,383	5,736
General and administrative	4,130	3,994	6,141	4,102	4,280
Total operating costs and expenses	27,084	32,686	39,365	28,426	28,294
Income (loss) from operations	(291)	135	(3,942)	(3,075)	(3,761)
Interest expense	(229)	(206)	(397)	(276)	(336)
Interest and other income (expense), net	240	381	(113)	25	(224)
Income (loss) before income taxes	(280)	310	(4,452)	(3,326)	(4,321)
Provision for income taxes	(165)	(229)	(203)	(152)	(341)
Net income (loss)	(445)	81	(4,655)	(3,478)	(4,662)
Foreign currency translation adjustments	(118)	(107)	33	(8)	86
Unrealized investment losses	--	(203)	--	--	--
Comprehensive loss	$ (563)	$ (229)	$(4,622)	$(3,486)	$(4,576)

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

SHERPA SYSTEMS CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)

<TABLE>
<CAPTION>

	CONVERTIBLE PREFERRED STOCK SERIES A		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL
<S>	SHARES <C>	AMOUNT <C>	SHARES <C>	AMOUNT <C>	<C>
Balance at December 31, 1995	5,454	$54	3,853	$38	$22,172
Issuance of common stock upon option exercises	--	--	107	1	116
Accrued interest on shareholder notes receivable	--	--	--	--	--
Unrealized loss securities	--	--	--	--	--
Foreign currency translation adjustment	--	--	--	--	--
Net income	--	--	--	--	--
Balance at December 31, 1996	5,454	54	3,960	39	22,288
Issuance of common stock upon option exercises	--	--	463	5	186
Write-off of marketable securities	--	--	--	--	--
Accrued interest on shareholder notes receivable	--	--	--	--	--
Foreign currency translation adjustment	--	--	--	--	--
Net loss	--	--	--	--	--
Balance at December 31, 1997	5,454	54	4,423	44	22,474

Issuance of common stock upon option exercises (unaudited)	--	--	242	3	238
Interest on shareholder notes (unaudited)	--	--	--	--	--
Foreign currency translation adjustment (unaudited)	--	--	--	--	--
Net loss (unaudited)	--	--	--	--	--
	-----	---	-----	---	-------
Balance at September 30, 1998 (unaudited)	5,454	$54	4,665	$47	$22,712
	=====	===	=====	===	=======

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	CUMULATIVE COMPREHENSIVE INCOME (LOSS)	NOTES RECEIVABLE FOR PURCHASE OF COMMON STOCK	ACCUMULATED DEFICIT	TOTAL
	-------------	------------	-----------	------
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	$(115)	$(100)	$(12,335)	$9,714
Issuance of common stock upon option exercises	--	--	--	117
Accrued interest on shareholder notes receivable	--	(6)	--	(6)
Unrealized loss securities	(203)	--	--	(203)
Foreign currency translation adjustment	(107)	--	--	(107)
Net income	--	--	81	81
	-----	-----	--------	------
Balance at December 31, 1996	(425)	(106)	(12,254)	9,596
Issuance of common stock upon option exercises	--	--	--	191
Write-off of marketable securities	203	--	--	203
Accrued interest on shareholder notes receivable	--	(7)	--	(7)
Foreign currency translation adjustment	33	--	--	33
Net loss	--	--	(4,655)	(4,655)
	-----	-----	--------	------
Balance at December 31, 1997	(189)	(113)	(16,909)	5,361
Issuance of common stock upon option exercises (unaudited)	--	(168)	--	73
Interest on shareholder notes (unaudited)	--	(5)	--	(5)
Foreign currency translation adjustment (unaudited)	86	--	--	86
Net loss (unaudited)	--	--	(4,662)	(4,662)
	-----	-----	--------	------
Balance at September 30, 1998 (unaudited)	$ (103)	$(286)	$(21,571)	$ 853
	======	=====	========	======

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

SHERPA SYSTEMS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1997	1998
				(Unaudited)	

<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:					
Net income (loss)	$ (445)	$ 81	$(4,655)	$ 3,478	$(4,662)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Unrealized foreign currency (gains)/losses	96	(93)	72	(182)	39
Depreciation and amortization	1,912	2,020	1,935	1,445	1,329
Provision for doubtful accounts	278	292	375	275	(150)
Forgiveness of stockholder notes receivable	14	--	--	--	--
Changes in assets and liabilities:					
Accounts receivable	(1,978)	(3,754)	(483)	(6,526)	3,240
Other assets	141	(771)	(170)	3,118	103
Accounts payable and accrued expenses	228	3,970	(1,515)	430	(631)
Deferred revenue	937	948	2,719	1,666	(2,390)
Net cash provided by (used in) operating activities	1,183	2,693	(1,722)	3,704	(3,122)
Cash flows from investing activities:					
Purchase of property and equipment	(761)	(1,721)	(1,465)	(1,017)	(526)
Proceeds from sale of fixed assets	18	--	--	--	--
Capitalization of software development costs, net	(127)	(240)	20	3	(17)
Purchase of software licenses, net	--	(633)	(79)	(77)	--
Net cash used in investing activities	(870)	(2,594)	(1,524)	(1,091)	(543)
Cash flows from financing activities:					
Proceeds from bank loans	--	1,129	1,371	(129)	1,000
Proceeds from issuance of common stock	103	117	191	141	239
Payments on capital lease obligations	(418)	(636)	546	684	(961)
Net cash provided by (used in) financing activities	(315)	610	2,108	696	278
Effect of exchange rate changes on cash	27	(16)	57	27	35
Increase (decrease) in cash and cash equivalents	25	693	(1,081)	3,336	(3,352)
Cash and cash equivalents at beginning of period	4,487	4,512	5,205	5,205	4,124
Cash and cash equivalents at end of period	$ 4,512	$ 5,205	$ 4,124	$ 8,541	$ 772
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for:					
Income taxes	$ 180	$ --	$ 208	$ 30	$ 87
Interest	$ 229	$ 206	$ 37	$ 280	$ 342
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:					
Equipment acquired under capital lease obligations	$ 1,698	$ 1,031	$ 1,617	$ 1,364	$ --
Securities received as consideration for accounts receivable	$ --	$ 331	$ --	$ --	$ --

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

SHERPA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

THE COMPANY

Sherpa Corporation, (the "Company" or "Sherpa") provides software applications and services that facilitate the communication and management of product-related information and processes for the extended manufacturing enterprise throughout the product lifecycle. The markets primarily serviced by the Company are within North America and Europe, where the Company operates several sales offices. The Company was incorporated in California in 1980.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated accounts include the accounts of Sherpa and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are comprised of cash, time deposit accounts and government treasury bills.

MARKETABLE SECURITIES

Marketable securities are composed of 268 shares of Radius Inc. common stock the Company received in 1996 in full satisfaction of a delinquent account receivable. The Company classifies marketable securities as "available-for-sale" in which net unrealized gains and losses are reported as a separate component of shareholder's equity. At December 31, 1996, the fair value of the marketable securities, based on the quoted trading price of the stock, was $128 and the unrealized loss totaled $203.

At December 31, 1997, the Company determined that the value of these marketable securities had been permanently impaired, and wrote down the value of the securities to the market valuation of $83.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to a concentration of credit risk consist primarily of cash equivalents and trade receivables. The Company invests any excess cash in highly liquid time deposit accounts and government treasury bills. Temporary cash is held by financial institutions that the Company believes are of high credit quality. The Company's accounts receivable are derived from revenue earned from customers located in North America, Europe, Australia and Japan. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. One customer account represented 25% and 27% of the net trade accounts receivable balance at December 31, 1996 and 1997, respectively. One customer account represented 26% (unaudited) of net the trade accounts receivable balance as at September 30, 1998. No other customer account represented greater than 10% of the net trade accounts receivable balance at December 31, 1996 or 1997 or at September 30, 1998 (unaudited). Revenues from one customer represented 10% and 14% of net revenue during 1996 and 1997, respectively. One customer account represented 17% and 12% of revenues for the nine month periods ending September 30, 1997 and 1998 (unaudited), respectively.

SHERPA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and capital lease obligations are carried at cost, which approximates their fair value because of the short-term maturity of these instruments.

PROPERTY AND EQUIPMENT

Property and equipment is stated at historical cost and is depreciated using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized over five years or the term of the related lease, whichever is shorter. When assets are sold or retired, their cost and related accumulated depreciation or amortization are removed from the accounts and any gain or loss is charged to operations.

RESEARCH AND DEVELOPMENT AND CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Costs of internally-developed software incurred prior to the establishment of technological feasibility are charged to research and development expense as incurred. Costs of internally-developed software incurred between the time a product's technological feasibility has been established and the time the product is available for general release to customers are capitalized. Amortization of capitalized costs is computed using the straight-line method over the estimated economic life of the product, generally two years, or the ratio of current revenues to total projected product revenues, whichever is greater. The cost of developing routine enhancements are expensed as research and development.

SOFTWARE LICENSES

Costs of purchased software licenses are amortized using the greater of straight-line method over their estimated economic lives, generally three years, or the ratio of licenses sold to total licenses available for sale.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company evaluates the recoverability of long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets.

REVENUE RECOGNITION

The Company derives revenue from the license of software products under non-cancelable license agreements and from the delivery of professional services and maintenance services. Effective for all periods ending prior to January 1, 1998, the Company recognized revenue in accordance with Statement of Position ("SOP") 91-1, "Software Revenue Recognition." In accordance with the provisions of this SOP, revenue from the sale of software products was recognized upon shipment when no significant vendor obligations remained and collection of the license fees was probable. Revenue on software license transactions in which there were significant outstanding obligations was deferred and recognized upon fulfillment of such obligations. The Company's software licenses typically did not include significant post delivery obligations to be fulfilled by the Company and the related software license fees were generally due within a twelve-month period from the date of delivery. Accordingly, license revenue was generally recognized upon shipment. Services revenue from customer maintenance fees for ongoing customer support, including maintenance bundled with software license was initially deferred and recognized over the support service periods. Revenue for professional services was recognized as services were performed.

SHERPA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(CONTINUED)

Effective January 1, 1998, the Company adopted SOP 97-2, "Software Revenue Recognition" with the exception of the provision deferred by SOP 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2," In accordance with the adopted provisions of SOP 97-2, the Company records revenue from software license when a license agreement is signed by both parties, the fee is fixed or determinable, collection of the fee is probable and delivery of the product has occurred. If an element of the license agreement has not been delivered, revenue for the element is deferred based on vendor-specific objective evidence of fair value. If vendor-specific objective evidence of fair value does not exist, all revenue is deferred until sufficient objective evidence exists or all elements have been delivered. Payments received in advance of revenue recognition are recorded as deferred revenue. Revenue for maintenance are deferred and recognized over the term of the contract. Revenue for professional services are recognized when the services are performed and collectibility is deemed probable. The Company believes that the adoption of SOP 97-2 and SOP 98-4 has not had a significant impact on its current licensing or revenue recognition practices. Should the Company modify its licensing practices, the application of the requirements under SOP 97-2 and SOP 98-4 may impact the timing of revenue recognition.

FOREIGN CURRENCY TRANSLATION AND HEDGING

The functional currency of each foreign operation is its local currency. Assets and liabilities are translated from the local currency to United States dollars using the current exchange rate at the end of the period. Revenue and expenses are translated using average exchange rates in effect during the period. Net gains and losses resulting from foreign currency translation are accumulated in a separate component of shareholders' equity. Intercompany balances denominated in foreign currencies are remeasured into the functional currency at each balance sheet date. Transaction gains and losses resulting from remeasurement are included in the determination of net income (loss). Gains or losses from remeasuring transactions denominated in currencies other than the functional currency are also reported as foreign currency gains or losses. Foreign currency cash flows are calculated in the local currency and then translated into United States dollars using average exchange rates in effect during the period.

The Company purchased foreign currency forward exchange contracts in 1997 and 1996 to hedge the economic exposure against currency fluctuations affecting certain foreign assets and liabilities. These forward exchange contracts are marked to market at each reporting date. Any resulting foreign exchange transaction gains or losses are recorded in "interest and other income (expense) net" in the statement of operations. For contracts fulfilled in the years ended December 31, 1996 and 1997, the Company recognized foreign currency losses of $22 and $168, respectively, which were offset by foreign currency transaction gains of $5 and $624, respectively. At December 31, 1997, the Company had certain forward exchange contracts maturing at various times through January 1998, to purchase a net equivalent of approximately $2,100 (primarily British Pounds Sterling, German Marks, Italian Lira and French Francs) for which the estimated unrealized gains and losses were not significant.

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of Statement of Financial Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation." Under APB 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force Consensus in Issue No. 96-18.

INCOME TAXES

Income taxes are accounted for using an asset and liability approach, which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The measurement of current and deferred tax liabilities and assets are based on the provisions of enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying interim consolidated financial information as of September 30, 1998, and for the nine months ended September 30, 1997 and 1998, are unaudited. The unaudited interim consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows as of September 30, 1998 and for the nine months ended September 30, 1997 and 1998. The financial data and other information disclosed in these notes to consolidated financial statements related to these periods are unaudited. The results of the nine months ended September 30, 1998 are not necessarily indicative of the results to be expected for the year ending December 31, 1998.

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted the provisions of SFAS No.

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The disclosures prescribed by FAS No. 131 will be effective for the Company's consolidated financial statements for the year ending December 31, 1998. The Company does not expect that the adoption of SFAS No. 131 will have a material impact on its consolidated financial statements.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidance for determining whether computer software is internal-use software and on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The Company has not yet determined the impact, if any, of adopting this statement. The disclosures prescribed by SOP 98-1 will be effective for the year ending December 31, 1999.

In June 1998 and 1999, the FASB issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities" and SFAS No. 137, "Accounting for Derivatives and Hedging Activities - Deferral of the Effective Date of SFAS No. 133" ("SFAS 133"), respectively. SFAS 133 is effective for all fiscal quarters beginning with the quarter ending June 30, 2000. SFAS 133 establishes accounting and reporting standards of derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company will adopt SFAS 133 in its quarter ending June 30, 2000 and does not expect such adoption to have an impact on the Company's results of operations, financial position or cash flows.

NOTE 2 - BALANCE SHEET COMPONENTS:

	DECEMBER 31, 1996	DECEMBER 31, 1997	SEPTEMBER 30, 1998 (UNAUDITED)
ACCOUNTS RECEIVABLE, NET:			
Accounts receivable	$13,603	$13,428	$14,691
Less: allowance for doubtful accounts	(164)	(406)	(256)
	13,439	$13,022	$14,435

Noncurrent accounts receivable generally represents amounts receivable for future maintenance and amounts due under software license agreements.

Write-offs against the allowance for doubtful accounts were $0, $25 and $48 (unaudited) for the years ended December 31, 1996 and 1997 and for the nine months ended September 31, 1998, respectively.

<TABLE>
<CAPTION>

	DECEMBER 31, 1996	DECEMBER 31, 1997	SEPTEMBER 30, 1998 (UNAUDITED)
PROPERTY AND EQUIPMENT, NET:			
Equipment	$ 6,828	$ 7,584	$ 7,728
Furniture and fixtures	1,516	1,611	1,714
Leasehold improvements	1,022	1,032	1,028
	9,366	10,227	10,470
Less: accumulated depreciation and amortization	(5,993)	(7,258)	(8,160)
	$ 3,373	$ 2,969	$ 2,310

</TABLE>

Property and equipment includes $3,101, $4,288 and $4,944 (unaudited) of fixed assets under capital leases at December 31, 1996 and 1997 and September 30, 1998, respectively. Accumulated depreciation of such assets was $2,080, $3,022 and $3,614 (unaudited) at December 31, 1996 and 1997 and September 30, 1998, respectively.

Accrued expenses and other current liabilities include commissions and payroll-related costs of $2,385, $953, and $434 (unaudited) at December 31, 1996 and 1997 and September 30, 1998, respectively.

SHERPA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(CONTINUED)

NOTE 3 - BORROWING ARRANGEMENTS:

LINE OF CREDIT AND FACTORING AGREEMENT

At December 31, 1997, the Company had a line of credit with a bank, which provides for borrowings based on eligible accounts receivable, up to a maximum of $5,000 with interest thereon at the bank's prime rate of 8.5 percent. This line of credit facility had a termination date of July 23, 1998. In addition, the Company entered into an equipment term loan with the bank for borrowings up to $1,000 and bears interest at the bank's prime rate plus 0.5%. Draws were available on this equipment loan until September 16, 1998.

The line of credit agreement is secured by substantially all of the Company's assets, and the terms of the related agreement include certain covenants, including annual profitability, liquidity and minimum quick ratio and tangible net worth amounts. In addition, the agreement prohibits the Company from taking certain actions, such as the payment of dividends or sale of intellectual property, without the prior written approval of the bank.

At December 31, 1997, the Company was not in compliance with certain covenants. In March 1998, the bank agreed to waive such covenant violations and extend the line of credit maturity until August 31, 1998. The equipment term loan availability was suspended until September 1, 1998.

CAPITALIZED LEASE OBLIGATIONS

In 1997, the Company entered into several new lease agreements to finance the acquisition of $1,616 of equipment. These lease agreements have been classified as capital leases and are secured by all of the equipment acquired. In addition, the Company also has several other capital lease agreements for other assets currently in use. Individual leases under these lease agreements have interest rates ranging from 8.86% to 10.28% per annum and expire at various dates through 2000. Scheduled future minimum payments are as follows:

YEAR ENDING DECEMBER 31,	AMOUNT
1998	$ 1,453
1999	1,090
2000	331
2001	--

	2,874
Less: amount representing interest	(205)
	2,669
Less: current portion	(1,235)
	$ 1,434

SHERPA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(CONTINUED)

NOTE 4 - INCOME TAXES:

Domestic and foreign income (loss) before income taxes and the significant components of the provision for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
INCOME (LOSS) BEFORE INCOME TAXES:			
Domestic	$(559)	$124	$(4,637)
Foreign	279	186	185
	$(280)	$310	$(4,452)
Provision for income taxes:			
Current:			
Federal	25	$ 14	$ --
State	45	36	15
Foreign	95	179	188
	$ 165	$229	$ 203

The Company's actual provision for income taxes differs from the provision (benefit) computed by applying the statutory federal income tax rate to income (loss) before income taxes as follows:

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
Tax (benefit) at statutory federal rate	$(95)	$ 106	$(1,514)
State taxes, net of federal benefit	45	26	10
Net operating loss carryforwards	65	(115)	1,514
Foreign taxes, net of federal benefit	95	179	188
Federal alternative minimum tax	25	14	--
Other, net	30	19	5
Tax provision	$165	$ 229	$ 203

SHERPA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(CONTINUED)

The components of net deferred tax assets are as follows:

	DECEMBER 31,	
	1996	1997
Reserves and allowances	$ 270	$ 600

Net operating loss and credit carryforwards	3,862	5,603
Foreign currency losses	102	109
Depreciation on property and equipment	981	1,076
Deferred tax assets	5,215	7,388
Deferred tax liabilities - software development costs	(220)	(395)
	4,995	6,993
Deferred tax asset valuation allowance	(4,995)	(6,993)
Net deferred tax assets	$ --	$ --

At December 31, 1997, the Company had net operating loss carryforwards of approximately $13,105 available to offset future federal taxable income, and federal tax credit carryforwards of approximately $634. The Company believes it experienced a "change in ownership" as defined by the Internal Revenue Code, in 1988 which caused a limitation of available net operating loss and tax credit carryforwards generated prior to 1989. The carryforwards expire beginning in 2001 through 2005. If certain substantial changes in the Company's ownership should occur in the future, there would be an additional annual limitation on the amount of the unrestricted carryforwards which can be utilized.

Based upon the currently available evidence, including the Company's accumulated deficit, lack of carryback capacity to realize deferred tax assets, the annual limitation on the utilization of net operating loss carryforwards, the uncertainty of the market for its products, and other factors, management believes that it is more likely than not that the deferred tax assets will not be fully utilized. Accordingly, the Company has provided a valuation allowance on all of its deferred tax assets.

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

LEASES

The Company leases buildings, vehicles and certain equipment under noncancelable operating leases which expire between 1998 and 2003. Under the terms of the leases, the Company is responsible for utilities, taxes, insurance and maintenance. Scheduled future minimum lease payments under outstanding operating leases are as follows (in thousands):

YEAR ENDING DECEMBER 31,	AMOUNT
1998	$1,751
1999	1,587
2000	1,294
2001	1,067
Thereafter	1,676
	$7,375

Rent expense was $1,362, $1,478, $1,411, $1,055 (unaudited) and $1,088 (unaudited), for the years ended December 31, 1995, 1996 and 1997, and for the nine months ended September 31, 1997 and 1998, respectively. The building leases provide for scheduled rent increases. The total lease commitment is being charged to operations on a straight-line basis.

LITIGATION

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks and other intellectual property rights. The Company is not currently aware of any legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's financial position or results of operations.

NOTE 6 - PREFERRED STOCK:

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Each share of Series A preferred stock ("Series A") is convertible into one share of common stock, subject to certain antidilution provisions, at the option of the holder or automatically upon the closing of an initial public offering of the Company's common stock at a price equal to or exceeding $3 per share with aggregate proceeds of at least $5,000. At December 31, 1997, the Company reserved 6,000 shares of common stock for issuance upon the conversion of the Series A stock.

The Series A preferred stockholders are entitled to annual noncumulative dividends of $0.15 per share when, and if, declared by the Board of Directors and are entitled to the number of votes equal to the number of shares of common stock into which such shares of Series A could be converted.

In the event of liquidation of the Company, the Series A preferred stockholders will receive $1.50 per share plus any declared but unpaid dividends in preference to any distribution to the common stockholders. All amounts in excess of the full liquidation value of the Series A shall be distributed to the common stockholders.

The Company has the option to redeem any portion of Series A at a price of $1.50 per share, together with all declared and unpaid dividends. As of September 30, 1998 (unaudited), the Company has not exercised its option to redeem any portion of this preferred stock.

NOTE 7 - STOCK OPTION PLAN:

STOCK OPTION PLAN ACTIVITY

During 1992, the Company's Board of Directors approved the 1992 Stock Option Plan (the "1992 Plan") which enveloped the former 1982 plan and provides for the granting of incentive stock options to employees and nonstatutory stock options to employees and consultants to purchase shares of common stock. In March 1995, the Board of Directors, which administers the 1992 Plan, increased the number of shares reserved for issuance under the 1992 Plan to 1,735 shares, of which 100 shares have been repurchased and are not available for grant. In addition 1,234 shares are reserved under the former 1982 Plan. Stock options are generally granted at exercise prices not less than the fair market value, as determined by the Board of Directors at the grant date. Incentive options generally expire ten years after the grant date. Options vest as determined by the Board of Directors at the date of grant, generally over four years.

Information with respect to activity under the 1992 Plan is as follows:

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance at December 31, 1995	$2,486	$1.50
Options granted	405	3.20
Options exercised	(107)	1.34
Options canceled	(313)	1.86
Balance at December 31, 1996	2,471	1.74
Options granted	361	4.18
Options exercised	(463)	1.08
Options canceled	(360)	2.16
Balance at December 31, 1997	2,009	2.26
Options granted (unaudited)	361	4.68
Options exercised (unaudited)	(231)	1.03
Options canceled (unaudited)	(212)	2.89
Balance at September 30, 1998 (unaudited)	1,927	$2.79

Using the Black-Scholes option-valuation model, the weighted average minimum value of options granted during 1996 and 1997, and the nine months ended September 30, 1998, was $0.82 and $1.07 and $0.83 (unaudited), respectively.

The following table summarizes information about employee stock options outstanding at December 31, 1997:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING AT DECEMBER 31, 1997			OPTIONS EXERCISABLE AT DECEMBER 31, 1997	
RANGE OF EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<C>	<C>	<C>	<C>	<C>	<C>
$1.00-1.25	621	2.20	$1.00	621	$1.00
1.50-2.00	784	6.87	2.00	615	2.00
3.00-3.75	481	8.93	3.61	124	3.54
5.00-5.00	123	9.77	5.00	--	--
	2,009	6.09	2.26	1,360	1.68

</TABLE>

SHERPA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(CONTINUED)

The following table summarizes information about employee stock options outstanding at September 30, 1998 (unaudited):

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING AT SEPTEMBER 30, 1998			OPTIONS EXERCISABLE AT SEPTEMBER 30, 1998	
RANGE OF EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<C>	<C>	<C>	<C>	<C>	<C>
$1.00-1.25	373	2.19	$1.00	$ 373	$1.00
1.50-2.00	686	6.18	2.00	620	1.99
3.00-3.75	481	8.33	3.52	195	2.38
5.00	387	9.28	5.00	67	5.00
	1,927	6.58	2.79	1,255	2.10

</TABLE>

MINIMUM VALUE DISCLOSURES

The Company calculated the minimum value of each option grant on the date of grant using the Black-Scholes option pricing model as prescribed by SFAS No. 123 using the following assumptions:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,
	1995	1996	1997	1998

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	----	----	----	-------------
				(Unaudited)
<S>	<C>	<C>	<C>	<C>
Risk-free interest rates	6.0%	6.1%	6.1%	4.7%
Expected lives (in years)	5.0	5.0	5.0	5.0
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	0.0%	0.0%	0.0%	0.0%

</TABLE>

If the compensation cost associated with the Company's stock-based compensation plan had been determined using the minimum value method prescribed by SFAS No. 123, the Company's net loss would have been $500, $111, $4,815, $3,598 (unaudited) and $4,824 (unaudited) for the years ended December 31, 1995, 1996 and 1997 and for the nine months ended September 30, 1997 and 1998, respectively.

As the determination of the minimum value of options granted for all periods presented is based on the assumptions set forth above, the pro forma disclosures may not be indicative of the pro forma effects of option grants on reported net income (loss) for future years.

NOTE 8 - PROFIT SHARING PLAN:

The Company has a Salary Savings Plan (the "Savings Plan") which covers substantially all officers and employees of the Company and was established under Section 401 of the Internal Revenue Code of 1986. The Company's contributions to the Savings Plan are determined at the discretion of the Board of Directors, subject to limits as defined under applicable federal income tax regulations. No contributions were made to the Savings Plan by the Company for the years ended December 31, 1996 and 1997.

NOTE 9 - RELATED PARTY TRANSACTIONS:

The Company has various notes receivable from shareholders relating to their exercise of options for the Company's Common Stock. These notes bear interest at rates ranging from 5.63% to 6.35% per annum. Principal and accrued interest are generally payable at various dates beginning in 1996 through 2004 or upon termination of employment. At December 31, 1996 and 1997 and September 30, 1998, the principal and accrued interest on these notes, aggregating $106, $113 and $286 (unaudited), respectively, are presented as a reduction of shareholders' equity in the accompanying consolidated financial statements.

NOTE 10 - SALE OF ACCOUNTS RECEIVABLE:

In 1996 and 1997, the Company had reached an agreement with a bank to sell, without recourse, $1,400 and $1,500 of its accounts receivable. Under the terms of the agreements, the debtor was directed to make payments directly to the bank and the Company retained no further obligations with respect to these accounts. Accordingly, the sales of the accounts receivable are reflected as a reduction of the accounts receivable in the accompanying balance sheet and the proceeds received are included in the cash flows from operating activities in the statement of cash flows. The difference between the carrying amount and the proceeds from the sale of the accounts receivable for the years ended December 31, 1996 and 1997 was $25 and $27, respectively. These amounts are recorded as a loss on the sale of accounts receivable and included in other expenses in the statement of operations.

NOTE 11 - SEGMENT AND GEOGRAPHIC REPORTING:

The Company operates in one industry segment which includes developing, marketing and implementing product data management software solutions for manufacturing organizations.

Information about the Company's operations in different geographic locations for the three years ended December 31, 1997 is shown below. The Company's areas of operation outside of the United States are primarily within Europe. Revenues from unaffiliated customers represent total net revenues from the respective geographic areas after elimination of intercompany transactions. Operating profit is net revenues less operating costs and expenses relating to specific geographic areas. Identifiable assets are those assets used in the geographic areas and are reflected after elimination of intercompany balances.

SHERPA SYSTEMS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(CONTINUED)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
Revenues from unaffiliated customers:		(IN THOUSANDS)		(UNAUDITED)	
United States	$17,337	$20,070	$25,734	$18,537	$15,959
Europe	9,456	12,751	9,689	6,814	8,574
	$26,793	$32,821	$35,423	$25,351	$24,533
Operating profit (loss):					
United States	$ (456)	$ 159	$(3,847)	$(2,975)	$(5,339)
Europe	165	(24)	(95)	(100)	1,578
	(291)	$ 135	$(3,942)	$(3,075)	$(3,761)
Identifiable assets:					
United States	$12,427	$16,478	$20,199	$18,814	$15,237
Europe	6,713	9,156	3,990	3,083	5,210
	$19,140	$25,634	$24,189	$21,897	$20,447

</TABLE>

NOTE 12 - SUBSEQUENT EVENTS:

LINE OF CREDIT

In August 1998, the Company entered into an agreement with a bank to extend the term of the Company's current $5,000 line of credit facility to February 28, 1999, and to waive the December 31, 1997 covenant violations. As part of the Agreement, the equipment term loan availability was removed. The conditions and covenants of the extended line of credit agreement remain unchanged from the previous agreement, which was to expire on August 31, 1998, except that the tangible net worth and liquidity covenants were permanently removed.

ACQUISITION (UNAUDITED)

In December 1998, Inso Corporation acquired all of the Company's outstanding shares of Common Stock, at which time the Company became a wholly owned subsidiary of Inso Corporation.

Exhibit 99.2

INSO CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AND STATEMENTS OF OPERATIONS

BACKGROUND INFORMATION

On December 4, 1998, Inso Corporation, a Delaware corporation (the "Company" or "Inso"), through a subsidiary acquired 94.6% of the outstanding capital stock of privately held Sherpa Systems Corporation, a California corporation ("Sherpa"). Sherpa is a provider of product data management solutions that manage mission-critical information through the product lifecycle process of design, testing, manufacturing, and delivery. The acquisition was followed by a merger of the aforementioned subsidiary of the Company into Sherpa. As a result of the merger, the Company became the owner of 100% of the stock of Sherpa in December 1998.

The total consideration paid for the Sherpa acquisition was $36,000,000, consisting of $28,700,000 of cash ($1,800,000 of which was paid in January 1999) and warrants to purchase 1,456,458 shares of the Company's common stock. The warrants at the time of the acquisition were valued at $5.00 per warrant, or $7,282,000 ("Original warrants"). The warrants, which are fully exercisable, have a 24-month term and entitled the holder to purchase shares of the Company's common stock at an exercise price of $23.50 per share.

On February 1, 1999, the Company announced that it would restate its financial results for the quarters ended March 31, June 30, and September 30, 1998, due to discovered errors and irregularities which ultimately affected the timing and dollar amounts of previously reported revenues. Subsequent to the announcement of its intention to restate results, the Company initiated discussions with the warrant holders to reprice the warrants or exchange the warrants for cash with the objective of meeting the intention under the original agreement. As a result, the Company has included $7,282,000 within acquisition related liabilities on the Unaudited Pro Forma Combined Condensed Balance Sheet.

On June 22, 1999, the Company entered into an agreement with the holders of the warrants that provided, among other things, a) for the cancellation of all of the Original Warrants held by such holders, b) the issuance to such holders of new warrants to purchase their proportionate share of 1,000,000 shares of the Company's Common Stock with a 36-month term and an exercise price of $10.00 per share and c) the payment to such holders of their proportionate share of $3,000,000 in cash. No adjustment has been reflected in the Unaudited Pro Forma Combined Condensed Balance Sheet for this agreement. As a result of the agreement, the Company expects to reduce the purchase price by approximately $2,100,000.

The Company's acquisition of Sherpa was accounted for as a purchase and has been included in the Company's consolidated financial statements since the date of acquisition. The acquisition also included certain technology under research and development, which was written-off with a one-time charge of $12,000,000 to the Company's consolidated 1998 fourth quarter earnings.

The foregoing description of the acquisition does not purport to be complete and is qualified in its entirety by reference to the Share Exchange Agreement and Agreement and Plan of Merger, a copy of which was previously filed and is hereby incorporated by reference in its entirety.

BASIS OF ACCOMPANYING UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The Unaudited Pro Forma Condensed Combined Balance Sheet assumes that the acquisition occurred on September 30, 1998. The Unaudited Pro Forma Condensed Combined Statements of Operations combines the historical results of operations of the Company and Sherpa for the year ended December 31, 1997 and the nine months ended September 30, 1998 assuming the acquisition occurred on January 1, 1997. The historical results for the nine months ended September 30, 1998 are derived from the Company's unaudited condensed consolidated financial statements included in its Form 10-Q/A and the operating results for the year ended December 31, 1997 are derived from the Company's Annual Report on Form 10-K. The unaudited pro forma condensed combined financial statements do not reflect cost savings and synergies that might be achieved from the acquisition.

The Unaudited Pro Forma Condensed Combined Balance Sheet includes the effect of the write-off of certain technology under research and development of $12,000,000. However, the Unaudited Pro Forma Condensed Combined Statements of Operations do not consider the write-off of this technology, or other non-recurring charges that may result from the transaction, and the integration of Sherpa into the Company.

The Unaudited Pro Forma Condensed Combined Balance Sheet includes direct transaction costs associated with the acquisition. These direct costs consist of legal and accounting services and appraisal fees. Additionally, the Unaudited Pro Forma Condensed Combined Balance Sheet includes estimated costs relating to exiting excess and duplicate activities as a result of the acquisition. The actual allocation of the final purchase price may be different from that reflected in the Unaudited Pro Forma Condensed Combined Financial Statements. There can be no assurance that the Company will not incur additional charges in subsequent quarters to reflect costs associated with the acquisition or that management will be successful in its efforts to integrate the operations of the two companies.

Management believes that the assumptions used in preparing these Unaudited Pro Forma Condensed Combined Financial Statements provide a reasonable basis for presenting all of the significant effects of the acquisition. These Unaudited Pro Forma Condensed Combined Financial Statements do not purport to be indicative of the results which actually would have been obtained if the acquisition had been effected on the date indicated or of those results which may be achieved in the future. The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the consolidated financial statements included in the Inso Corporation Annual Report on Form 10-K for the year ended December 31, 1998.

PRO FORMA ADJUSTMENTS

A summary of the Pro Forma Adjustments is set forth as follows:

(a) To record operating cash used for the acquisition.

(b) To adjust net assets acquired to estimated fair value.

(c) To record the write-off of certain purchased technology under research and development.

(d) To eliminate Sherpa's stockholders' equity.

(e) To record amounts due to stockholders of Sherpa and consideration to be paid for employment and noncompetition agreements.

(f) To record direct costs of the acquisition, including legal and accounting services and appraisal fees, and to record estimated costs of exiting excess and duplicate activities relating to the acquisition.

(g) To record estimated value at the time of the acquisition of warrants to purchase 1,456,458 shares of the Company's common stock.

(h) To record the excess purchase price over net assets acquired.

(i) To record deferred tax assets and liabilities resulting from the acquisition.

(j) To record product development amortization expense.

(k) To record amortization expense associated with intangible assets acquired.

(l) To record the tax benefit of related amortization expense.

(m) To record the benefit of Sherpa net operating losses. The Unaudited Pro Forma Condensed Combined Statements of Operations assumes that the acquisition occurred on January 1, 1997. However, due to certain provisions of the Internal Revenue Code concerning changes in ownership, the actual use of net operating losses generated prior to the date of acquisition may be limited.

EXHIBIT 99.2

<TABLE>
<CAPTION>

INSO CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
(AMOUNTS IN THOUSANDS)

	INSO HISTORICAL SEPTEMBER 30, 1998	SHERPA SYSTEMS CORPORATION HISTORICAL SEPTEMBER 30, 1998	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
ASSETS				
Current assets:				
<S>	<C>	<C>	<C>	<C>
Cash, cash equivalents and marketable securities	$ 88,397	$ 772	$(26,876) a	$ 62,293
Accounts receivable, net	24,444	14,105		38,549
Prepaid expenses and other current assets	3,238	1,811	2,218 b	7,267
Total current assets	116,079	16,688	(24,658)	108,109
Property and equipment, net	6,699	2,310		9,009
Product development costs, net	13,140	0	7,875 b	21,015
Intangible assets, net	4,108	0	8,597 b	
			16,078 h	28,783
Other assets, net	6,295	1,449		7,744
Deferred income tax benefit, net	2,528	0		2,528
TOTAL ASSETS	$148,849	$20,447	$ 7,892	$177,188
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities, salaries, commissions, and bonuses and royalties payable	$ 10,634	$ 6,650		$ 17,284
Acquisition related liabilities	0	0	1,841 e	
			5,800 f	
			7,282 g	
			1,597 e	16,520
Unearned revenue	5,285	7,736		13,021
Capital leases, current portion	0	1,014		1,014
Bank loan payable	0	3,500		3,500
Deferred income taxes	3,703	0	(1,325) i	2,378

Total current liabilities	19,622	18,900	15,195	53,717
Capital leases, non-current portion	0	694		694
Deferred income tax, non-current portion	0	0	5,550 i	5,550
Total stockholders' equity	129,227	853	(853) d (12,000) c	117,227
	129,227	853	(12,853)	117,227
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$148,849	$20,447	$ 7,892	$177,188

</TABLE>

<TABLE>
<CAPTION>

INSO CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
(AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<S>	INSO HISTORICAL FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 <C>	SHERPA SYSTEMS CORPORATION HISTORICAL FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 <C>	PRO FORMA ADJUSTMENTS <C>	PRO FORMA COMBINED <C>
Total revenues	$45,462	$24,533		$69,995
Cost of revenues	7,441	9,071	$ 1,050 j	17,562
Gross profit	38,021	15,462	(1,050)	52,433
Operating expenses:				
Sales and marketing	16,269	9,207	578 k	26,054
Product development	14,899	5,736	594 k	21,229
General and administrative	12,602	4,280	1,175 k	18,057
Purchased in-process research and development	8,100	0		8,100
Total operating expenses	51,870	19,223	2,347	73,440
Operating loss	(13,849)	(3,761)	(3,397)	(21,007)
Non-operating income:				
Net investment income (expense)	3,480	(560)		2,920
Gain on sale of linguistic software net assets	12,012	0		12,012
Income (loss) before provision for income taxes	1,643	(4,321)	(3,397)	(6,075)
(Benefit) provision for income taxes	(837)	341	(1,253) l	(1,749)
Net (loss) income	$ 2,480	$(4,662)	$(2,144)	$(4,326)
Basic earnings (loss) per share	$ 0.17			$(0.29)
Diluted earnings (loss) per share	$ 0.16			$(0.29)
Weighted average shares outstanding				
Basic	14,942			14,942
Diluted	15,425			14,942

</TABLE>

<TABLE>
<CAPTION>

INSO CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
(AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	INSO HISTORICAL FOR THE YEAR ENDED DECEMBER 31, 1997	SHERPA SYSTEMS CORPORATION HISTORICAL FOR THE YEAR ENDED DECEMBER 31, 1997	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
Total revenues	$81,869	$35,423		$117,292
Cost of revenues	9,811	12,826	$ 1,400 j	24,037
Gross profit	72,058	22,597	(1,400)	93,255
Operating expenses:				
Sales and marketing	23,548	12,888	770 k	37,206
Product development	22,660	7,510	792 k	30,962
General and administrative	15,774	6,141	1,567 k	23,482
Restructuring expenses	5,848	0		5,848
Purchased in-process research and development	6,100	0		6,100
Total operating expenses	73,930	26,539	3,129	103,598
Operating loss	(1,872)	(3,942)	(4,529)	(10,343)
Net investment income (expense)	4,376	(510)		3,866
Income (loss) before provision for income taxes	2,504	(4,452)	(4,529)	(6,477)
(Benefit) provision for income taxes	2,944	203	(1,016) l (1,218) m	913
Net loss	$(440)	$(4,655)	$(2,295)	$(7,390)
Basic loss per share	$(0.03)			$(0.51)
Diluted loss per share	$(0.03)			$(0.51)
Weighted average shares outstanding				
Basic	14,362			14,362
Diluted	14,362			14,362

</TABLE>